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OUTLOOK '83

NOVEMBER 29 - DECEMBER 1, 1982

COMPILATION OF ALL SPEECHES RECEIVED AFTER PRE-CONFERENCE DEADLINE

SESSION

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OUTLOOK '83



1983 Agricultural Outlook Conference, Session #11
Washington, D.C.

For Release: Tuesday, November 30, 1982.

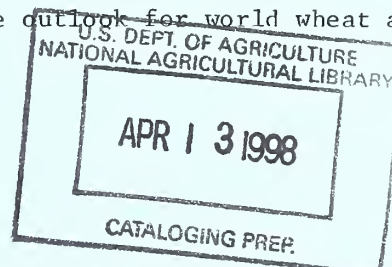
Food Grain Overview

Food grains, wheat and rice combined, make up nearly two-thirds of all the grain consumed, in a more or less direct manner, as food around the world. Given the importance of wheat and rice as food staples, and with food grain production accounting for just under half the world's annual output of grain, it is important that, before getting heavily into the 1982/83 outlook, the discussion focus initially on the world food grain situation as it developed over the 1981/82 season and the types of pressures evident as the 1982/83 season began.

The 1981/82 world food grain situation could be characterized as a year of oversupply. Production declined from the 1980/81 level, behind a sharp fall in Soviet wheat production, but exceeded world food grain requirements by nearly 7 million tons, and 1981/82 world ending stocks of food grains increased. Despite increased import demand (record world trade) global stocks increased and resulted in lower prices for much of 1982. However, the build-up in stocks and downward pressure on prices of food grains, particularly wheat, was not nearly as severe as that for feed grains.

On a global basis, Mother Nature was kind in 1982 and world food grain production (rice, milled) is now estimated at a record 730 million tons up about 1 percent from last year. World utilization of food grains is expected to be up as well, but will remain below world production. Generally better crops and poor financial conditions in major food grain importing regions will reduce import demand with world trade expected to fall from last year's record. The expected oversupply in world markets in 1982/83 will lead to a further build-up in world stocks with downward pressure on prices likely to continue at least until the outcome of the 1983/84 harvests is clear. Much of the world stock build-up will take place in the United States. Overall, the world stocks-to-use ratio (world stocks as percent of world use) for food grains should increase to nearly 15 percent.

While aggregate 1982/83 food grain production is currently forecast to be a record, and global stocks are expected to rise, the individual production/utilization balances for world wheat and rice will move in opposite directions. A separate review of the outlook for world wheat and world rice follows.



AGRICULTURAL OUTLOOK CONFERENCE • USDA • NOV. 29-DEC. 1, 1982 • WASHINGTON, D.C.

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World Wheat Outlook

World Wheat Crop for 1982/83 a Record

At the level currently forecast, world wheat production would be a record 462 million tons--15 million larger than the previous 1978/79 record, and 3.5 percent, or 16 million tons above the 1981/82 level. An area of 234 million hectares will likely be harvested this year, 1.5 percent below the 1981/82 record, but global yields at nearly 2 tons/hectare are up 5 percent from last year, and a new record.

Contrary to the situation last year, only a small part of the world increase--0.5 million tons--will come in the United States. Foreign production will increase 15 million tons from last year's level. Prospects in the major exporting countries are good, with the production forecast of 181 million tons just 1.6 million tons above last year. Record production in the European Community and Canada and near record in Argentina will more than offset the drought-reduced crop in Australia, where wheat output is now expected to be only half the 1981/82 level. Such a reduction in the Australian crop--the poorest in 10 years--may necessitate imports of small quantities of wheat for domestic use to free up supplies to meet export commitments under long-term agreements. In Argentina, increased wheat area combined with favorable crop conditions to date is likely to result in a near-record production of 11 million tons--over 40 percent larger than the 1981 output. While early frosts and delayed harvesting will likely lower the overall quality of the Canadian crop (approximately 40 percent of the crop is expected to grade below No.2 CWS.), wheat output is forecast to reach a record 27 million tons. The 1982 wheat crop in the countries of the European Community was the largest ever. A 2.5 percent rise in sowings and record yields boosted output nearly 4 million tons, or 7 percent above the 1981 crop.

The net production increase of 1.6 million tons in the major exporting countries is small compared to the 10.8 million ton increase in the major importing countries, largest of which are in Eastern Europe and the USSR. Favorable late season weather for wheat in Eastern Europe combined with an increased area harvested led to an 11 percent increase in production. Soviet wheat production this year is forecast at 86 million tons, while 6 million tons better than the poor 1981 harvest, it is still the second smallest crop since the disastrous 1975/76 crop. The cumulative effect of the poor winter wheat crop development in the early growth stages, a lack of sufficient moisture in the spring, and a 2 million hectare drop in area harvested are the major factors behind the fourth consecutive poor wheat harvest. Crop production in China is likely to be up 1 million tons this year.

A marked increase in plantings initially boosted prospects for this year's Brazilian crop, but warm, humid conditions and excessive rainfall promoted a fungus disease in many areas and yields will be below last year's. Brazil's wheat crop is now estimated at 2.1 million tons, just below last year's output. In North Africa, estimates now put Morocco's wheat crop at 1.8 million tons, double the drought-reduced outturn of 1981. The increase in the Moroccan crop more than offsets the 40 percent drop in Algerian wheat production, so that the North African region's harvest is expected to be nearly 10 percent larger. In summary, the major importers' wheat outturn is expected to be up almost 11 million tons from 1981.

Utilization in 1982/83 to be little changed from levels of past four years

Total wheat utilization this year is estimated at 454 million tons, up 15 million tons from last year's reduced level, but 8 million tons below the forecast world production level. World usage of wheat dropped to 438 million tons last year, all due to declines in use of wheat for feed in the USSR, where a poor harvest and a shift toward heavier dependence on coarse grains in animal rations caused wheat feeding to drop 11 million tons. This year, however, Soviet use of wheat for feed is expected to be up 2 million tons. Not only was Soviet wheat production higher this year but the quality was poor, so that a larger amount of domestic wheat went directly into use as animal feed. In the European Community, however, record supplies and lower internal prices relative to imported corn is expected to boost wheat feeding 7 percent to 14.5 million tons, making wheat 20 percent of all grains fed in the EC. In total, world use of wheat as feed is up 3.6 million tons to 81 million tons, 18 percent of total wheat consumption.

In most other major wheat consuming regions/countries--China, India, North Africa/Middle East, Pakistan, and Bangladesh, which together account for almost 40 percent of world wheat utilization--consumption (almost totally for human use) will be up an average of 3 percent.

Total wheat use in the developing countries has increased at an average rate of about 4.0 percent over the 1970's. Matching this growth in consumption against a growth in population of 2.3 percent per year, indicates that per capita utilization increased about 1.7 percent per year. So far in the 1980's, growth in developing country per capita wheat usage has slowed to less than half the 1970's rate.

The bulk of world wheat production (about 70 percent) is destined directly for human consumption. Direct human consumption of wheat changes largely in response to population, income, prices, tastes, and government policies. The slower rate of growth in per capita food wheat consumption is partly related to the continuing poor economic prospects worldwide, particularly in the low-income developing countries where deteriorating economic prospects, balance of payments problems, little growth in aid or commercial credit flows, and foreign exchange constraints will not allow increased food needs to be fully translated into an effective demand for food grains.

World stock levels to increase in 1982/83

World wheat production is expected to exceed total use by 8 million tons. Stock levels by the end of the 1982/83 season should be up by a like amount, to over 90 million tons--almost a 10 percent increase on beginning season stocks. One measure of global oversupply is the stocks-to-use ratio, which by the end of 1982/83 will hit nearly 20 percent, up from 19 percent last year and 17 to 18 percent in 1979/80 and 1980/81.

The United States is expected to bear the major part of the world wheat stock adjustment in 1982/83. The major importing countries are expected to see a slight decline in wheat stock levels by the end of the season as are the "other" importers. India is the only importer expected to add to

existing stocks in 1982/83. Our competitors in the world wheat market will, as a group, increase stocks less than 1.0 million tons from the beginning of the season--expected stock increases in Canada and a marginal gain in the EC more than offsetting the dramatic decline in Australian stocks. Going into the 1983/84 season, the United States will be holding 44 percent of world wheat, stocks up from a 1979/80 average of 30 percent.

Wheat Stocks

Country/Group	Average	1981/82	1982/83
-- Million tons --			
U.S.	25.5	31.2	39.8
Major Competitors:	25.5	20.9	21.8
Importers	34.3	30.2	28.8
World Stocks	85.3	82.3	90.4
U.S. Share	30%	38%	44%

World Trade likely to fall in 1982/83

The last two decades have seen important shifts in the patterns of world wheat trade. Wheat exports continue to be dominated by the United States with nearly 42 percent of the world market, and by Canada and Australia with a combined 25 percent share. All these countries export over half of their total wheat production. The major change in wheat export patterns over the last two decades has been the increase in exports from the European Community. Domestic price supports--substantially above world prices--have stimulated EC production. Combined with an aggressive export program and lucrative subsidies, the EC now holds a 15 percent share of world wheat and wheat flour exports, a substantial gain considering they only became a consistent net exporter in the early 1970's.

Developing countries play a small role in world wheat exports. Argentina is the only developing country that exports substantial quantities of wheat on a consistent basis. Other developing countries, particularly Turkey, and to a lesser extent, India, have exported small amounts.

Developing countries do make up nearly half of world wheat imports, however. The last two decades have seen rather dramatic shifts in the pattern of wheat imports by the developing countries. In the mid 1960's, South Asia--India, Bangladesh and Pakistan--comprised 16 percent of all wheat imports. Last year, the share was just over 3 percent. The region comprising North African and Middle East countries is now the major wheat importing region, accounting for about 20 percent of world wheat imports. Over the 1970's, imports from that region grew at a rate of 7 percent per year.

Following 3 years of rapid gains, world trade (imports) in wheat and wheat flour for 1982/83 is now forecast at about 103 million tons, down nearly 3.0 million tons from last year's record trade. Many of the developing countries, which formed the base for growth in world wheat trade, are facing financial constraints that limit their ability to buy. With this interruption in the developing countries' import pattern, world grain trade has become increasingly susceptible to variations in markets such as USSR, China, East Europe, and India, which combined represent about 40 percent of world wheat trade and where administrative decisions, more than economic forces, shape import patterns.

The larger crops in Canada, European Community, and Argentina will allow increased exports in 1982/83. The Canadians are expected to have little difficulty in moving lower quality wheat into the export market, particularly with a major customer like China willing to purchase lower grade wheat. In addition, the announced 7.6 million-ton grain sale to the USSR (primarily wheat) may translate into record Canadian wheat export sales of 19.5 million tons, up 2 million tons from last season. The west coast dock strike, which lasted only a few weeks, is not likely to dampen this prognosis for record wheat trade in 1982/83.

European Community exports to third countries are now estimated at a record 16.5 million tons. The record EC harvest has depressed internal prices and, despite the higher export subsidy costs, the Community continues to seek export markets. Authorizations for exports of wheat are now running 47 percent ahead of last year's pace. Evidence suggest that the EC is turning increasingly to the USSR and China as markets for its surplus.

Increased exports on the part of Canada, Argentina and the EC, at 3.6 million tons for 1982/83, are essentially offset by the much lower export availabilities in Australia. Their wheat exports in 1982/83 (July-June) are not expected to exceed 7.5 million tons, down 3.5 million tons from last season. Domestic use of wheat is expected to be up in 1982/83. Wheat feeding will clearly rise to maintain livestock through the drought as forage conditions are poor. The Australian Wheat Board requested and was granted permission to import wheat, if necessary--the aim being to supply some domestic markets and free up additional supplies for export under existing agreements.

Among the major exporters, the United States would seem to be the single adjustor to reduced world import demand for wheat--exports down and stocks up.

On the importer side, most of the decline in trade is expected in East Europe and the USSR. Soviet imports are estimated at 17 million tons, down from 19.5 million tons last year. Soviet wheat purchases in the first quarter of the July-June year were extremely light. A number of reasons have been advanced for the slow start in Soviet purchases--lack of foreign exchange allocations, good availability of forages, a larger crop over last year, and logistical constraints on the inland transportation system. Heavy Soviet purchases have now resumed, with emphasis on wheat, but the slow start and a better crop that previously forecast will hold July-June imports to below last year's level.

Eastern Europe's imports could drop nearly 2 million tons. In addition to an improved outlook for production, which will help to lessen import requirements, foreign exchange and credit problems continue to influence import patterns. Better crops in Latin America, particularly Brazil and Mexico will reduce their import requirements sharply as well. China made heavy purchases early in the year and may import a record 14 million tons by June 1983. Imports by the North Africa/Middle East region could be up 8 percent in 1982/83, having jumped 12 percent in 1981/82.

India is again in the import market for wheat. So far, 2.5 million tons have been purchased, and 1982/83 imports may reach 5 million tons. The increased wheat purchases relative to last year are as much a reflection of a poor rice crop as of problems with the quality of this year's wheat production or procurement progress.

Price and Short-Run Outlook

Historically, world stock-to-use ratios and the overall level of U.S. wheat stocks have proved fair barometers of world wheat price movements. Given the likelihood of an ending stocks buildup for world wheat, the stocks-to-use indicator would point to continued downward pressure on prices. However, U.S. ending stocks, at such high levels relative to world holdings, is probably the more important indicator this year. The U.S. loan rate helps to set a floor price, not only in the United States but in world markets as well. With the world stock build-up almost totally in the United States, U.S. and world prices could drop 5 to 7 percent from last year's averages. Factors that could lend some positive influence on world and U.S. price levels over the next few months would be a final outcome of Southern Hemisphere harvests in Australia and Argentina that is substantially lower than currently forecast or a significant change in import demand, such as increased purchases on the part of China, USSR, or India.

For the 1983 foreign wheat crop, very little retrenchment in area planted is expected on the part of our major competitors. Generally favorable weather should allow trend yields and a foreign crop as large or larger than this year's record. Such a production outcome combined with a static world consumption could lead to lessened foreign import requirements and a world trade in wheat not much improved on this year's.

World Rice Outlook

Rice Production and Trade to Fall in 1983

World rice production for 1982/83 is currently forecast at 398 million tons on a rough basis (268 milled). Although down 3 percent from last year's record, the 1982/83 crop will still be the second largest production ever. The lower production reflects mostly a decline in global yields as area declined marginally. The United States is expected to harvest a rice crop 18 percent smaller than the 1981 record. Foreign production is also expected to be below last year's record. Expectations of reduced harvests in India, Pakistan, and Thailand will more than offset the 3 million ton increase in China and smaller increases in Burma and Japan. Final world

production estimates remain tentative, however, depending on weather developments in the coming months, particularly in India.

World consumption is expected to fall in 1982/83, the first global decline for rice in 10 years. India is the only major rice consumer which expects a drop in consumption in 1982/83, but the drop of 6 million tons more than offsets the continued increase in rice consumption in the rest of the world. With world production expected to fall more than consumption, world ending stocks are likely to be drawn down to 18 million tons, the lowest in 6 years. However, the global stock drawn down will not likely result in much price strength. Most of the drawdown will occur in major exporting/consuming countries such as India, Japan and Thailand where beginning year stocks will augment production in helping to meet domestic consumption and export levels. Continued high stocks levels and good production prospects in the major importers, particularly Indonesia and South Korea, would indicate little or no change in the level of world trade in rice for 1983.

Major Importers

The large stocks held by the Indonesian Government and the prospects for a production level equivalent to last year's suggests that 1983 rice imports are not likely to exceed 400,000 tons, down from an estimated 500,000 tons for 1982.

Exceptional dryness in South Korea through most of the spring and summer months put its rice crop in jeopardy. However, heavy rains in August followed by favorable growing conditions resulted in a recovery of the rice crop. South Korea's rice production is now expected to exceed last year's 7.0 million tons (rough rice). Given the high level of beginning stocks, a crop of 7 million tons or larger would likely limit South Korea's rice imports to 250-300 thousand tons--drawing down its rice stocks to more normal levels to meet increased consumption requirements. This is about the level of exports from the United States that the Korean Government is still committed to take.

The Soviet Union could be the largest purchaser of rice in 1983. Projected Soviet imports are now at 750,000 tons. In the past, India has supplied up to 500,000 tons. Given the short rice crop in India, the Soviet's could turn to Thailand for part of the shortfall. The second and third largest importers in 1982/83 are likely to be Iran and Nigeria both with estimated import requirements of 600,000 tons. As a block, the Middle East countries, particularly Iran, Iraq, Saudi Arabia and the United Arab Emirates, are expected to import 2.3 million tons of rice.

Major Exporters

Most major rice exporters have abundant exportable supplies this season. The 1982 rice crop in Thailand, the leading U.S. competitor in the world rice market, is forecast to drop 1.1 million tons from the record 12.7 million tons (milled) in 1981/82. Dry weather conditions were responsible for the lower production forecast, although timely rains could yet allow some recovery in yields. Despite the lower crop forecast, an expected drawdown in stocks will allow Thailand to remain an aggressive exporter in 1983. Rice is a key foreign exchange earner for Thailand and the Government

has lifted the rice premium and reserve requirement and has been successful in stimulating exports. Thai rice exports for calendar year 1982 are expected to total nearly 3.5 million tons, an all-time high. For 1983, Thai export prospects remain strong at 3.2 million tons.

In South Asia, a weak and late summer monsoon damaged prospects for a bumper rice crop in Pakistan. The Pakistani crop is now forecast down just slightly from last year. In India, the early withdrawal of the monsoon significantly reduced rice production prospects. The crop is now forecast at 48 million tons, 6 million, or 11 percent below last year. As a result, stocks will be drawn down to their lowest level in 8 years, and rice consumption will be held down. In addition, the poorer rice harvest could force wheat imports higher to ensure adequate food grain supplies.

World Wheat Production

Country/Region	Preliminary	Forecast	Change	
	1981/82	1982/83	Actual	Percent
	--Million metric tons--			%
<u>Major Exporters--</u>				
United States	76.0	76.5	0.5	+0.7
Argentina	7.8	11.0	3.2	+41.0
Australia	16.4	8.5	-7.9	-48.2
Canada	24.8	26.8	2.0	+8.1
European Community	54.3	58.1	3.8	+7.0
Total	179.3	180.9	1.6	+0.9
<u>Major Importers--</u>				
Eastern Europe	30.5	33.9	3.4	+11.1
USSR	80.0	86.0	6.0	+7.5
China (PRC)	58.5	59.5	1.0	+1.7
Brazil	2.2	2.1	-0.1	-4.5
North Africa	5.2	5.7	0.5	+9.6
Total	176.4	187.2	10.8	+6.1
World Less U.S. (Foreign)	369.8	385.1	15.3	+4.1
World Less U.S. & USSR	289.8	299.1	9.3	+3.2
World	445.8	461.6	15.8	3.5

World Wheat Trade

Country/Region	Preliminary	Forecast	Change	
	1981/82	1982/83	Actual	Percent
	--Million metric tons--			%
<u>Major Exporters--</u>				
United States	49.1	45.0	-4.1	-8.4
Australia	11.0	7.5	-3.5	-31.8
Canada, Argentina and EC	44.0	47.6	+3.6	+8.2
<u>Major Importers--</u>				
India	2.3	5.0	2.7	+117.4
PRC	13.2	14.0	0.8	+6.1
Mid. East & North Africa	18.5	20.0	1.5	+8.1
Mexico	1.0	0.3	-0.7	-70.0
Brazil	4.5	4.0	-0.5	-11.1
Eastern Europe	6.4	4.6	-1.8	-28.1
USSR	19.5	17.0	-2.5	-12.8
Total Above	65.4	64.9	-0.5	-0.7
World Trade	105.8	103.0	-2.8	-2.6

World Rice Production (Milled)

Country/Region	:	Preliminary	:	Forecast	:	Change	
						Actual	Percent
		1981/82		1982/83			
	:	-- Million Metric Tons --					%
	:						
<u>Major Exporters:</u>	:						
United States	:	6.1		5.0		-1.1	-18.0
Thailand	:	12.4		11.4		-1.0	-8.1
China (PRC)	:	97.4		99.6		+2.2	+2.2
India	:	54.0		45.0		-9.0	-16.7
Pakistan	:	3.2		3.1		-0.1	-3.1
Burma	:	8.5		8.8		0.3	+3.5
Japan	:	9.3		9.6		+0.3	+3.2
Total	:	190.9		182.5		-8.4	-4.4
	:						
<u>Major Importers:</u>	:						
Indonesia	:	22.3		22.3		NC	NC
South Korea	:	5.1		5.2		0.1	+2.0
Total	:	27.4		27.5		0.1	+0.4
	:						
World Less U.S. Foreign	:	270.2		263.2		-7.0	-2.6
	:						
World	:	276.3		268.2		-8.1	-2.9
	:						

World Rice Trade (Calendar Years)

Country/Region	:	Preliminary	:	Forecast	:	Change	
						Actual	Percent
		1982		1983			
	:	-- Million Metric Tons --					%
	:						
<u>Major Exporters:</u>	:						
United States	:	2.5		2.7		0.2	+8.0
Thailand	:	3.6		3.2		-0.4	-11.1
China (PRC)	:	.6		0.6		NC	---
Pakistan	:	0.9		1.1		+0.2	+22.2
Burma	:	.8		.8		NC	---
Japan	:	.4		.4		NC	---
	:						
<u>Major Importers:</u>	:						
Indonesia	:	0.4		0.5		+0.1	+25.0
South Korea	:	0.3		0.4		0.1	+33.3
USSR	:	0.8		0.8		NC	NC
Nigeria	:	0.6		0.7		0.1	+16.7
Middle East	:	2.3		2.3		NC	NC
	:						
World Trade	:	12.0		11.7		-0.3	-2.5
	:						

World Food Grain Summary

	: 1975/76- :	:	: Preliminary :	Forecast
	: 1977/78 :	1980/81	: 1981/82 :	1982/83
	: AVERAGE :	:	:	:
	:	-- Million Metric Tons --	:	:
	:			
World:	:			
Production	: 628.3	704.6	722.1	729.8
Utilization	: 616.7	711.9	715.2	725.2
Ending Stocks	: 101.9	96.3	103.4	108.0
Stocks/Utilization (Percent)	: 16.5	13.5	14.5	14.9
Trade	: 83.1	110.4	116.8	113.9
	:			
United States:	:			
Production	: 61.1	69.4	82.1	81.5
Utilization	: 41.2	23.2	25.4	25.9
Exports	: 31.5	44.9	51.8	47.7
Ending Stocks	: 27.9	27.4	33.3	41.3
U.S. Stocks/Total (Percent)	: 27.4	28.5	32.2	38.2
	:			
Soviet Union:	:			
Production	: 87.2	100.0	81.6	87.6
Utilization	: 97.1	119.8	101.3	104.8
Imports	: 7.5	17.3	20.3	17.8
Exports	: .8	.6	.6	.6
Stocks Change	: ---	---	---	---
	:			
Rest of World:	:			
Production	: 480.0	535.2	558.4	560.7
Utilization	: 478.4	569.0	588.5	594.5
Imports	: 73.8	92.1	97.5	96.9
Exports	: 50.8	64.6	68.2	69.6
Net Imports	: +23.0	+27.5	+29.3	+27.3
	:			

World Wheat Summary

	: 1975/76- :		: Preliminary :	Forecast
	: 1977/78 :	1980/81	: 1981/82 :	1982/83
	: AVERAGE :		: :	
	:			
	:	-- Million Metric Tons --		
	:			
World:	:			
Production	: 385.6	439.3	445.8	461.6
Utilization	: 378.0	444.8	438.2	453.5
Ending Stocks	: 81.9	74.6	82.3	90.4
Stocks/Utilization (Percent)	: 21.7	16.8	18.8	19.9
Trade	: 73.5	96.5	105.8	103.0
	:			
United States:	:			
Production	: 57.4	64.6	76.0	76.5
Utilization	: 21.2	21.1	23.1	23.5
Exports (July-June)	: 29.5	41.9	49.1	45.0
Ending Stocks	: 26.8	26.9	31.7	39.8
U.S. Stocks/Total (Percent)	: 32.7	36.1	38.5	44.0
	:			
Soviet Union:	:			
Production	: 85.1	98.2	80.0	86.0
Utilization	: 95.4	116.7	99.0	102.5
Imports	: 7.1	16.0	19.5	17.0
Exports	: .8	.5	.5	.5
Stocks Change	: ---	-3.0	---	---
	:			
Rest of World:	:			
Production	: 243.1	276.5	289.8	299.1
Utilization	: 261.4	307.0	316.1	327.5
Imports	: 65.6	80.5	86.3	86.0
Exports	: 43.2	54.7	58.7	60.6
Net Imports	: +22.4	+25.8	+27.6	+25.4
	:			

World Rice (Milled) Summary

	: 1975/76- :	:	:Preliminary :	Forecast
	: 1977/78 :	1980/81	: 1981/82 :	1982/83
	: AVERAGE :	:	:	:
	:			
	:	-- Million Metric Tons --		
	:			
World:	:			
Production	: 242.7	265.3	276.3	268.2
Utilization	: 238.7	267.1	277.0	271.7
Ending Stocks	: 20.0	21.7	21.1	17.6
Stocks/Utilization (Percent)	: 8.4	8.1	7.6	6.5
Trade (Calendar Year)	: 9.6	12.9	12.0	11.7
	:			
United States:	:			
Production	: 3.7	4.8	6.1	5.0
Utilization	: 20.0	2.1	2.3	2.4
Exports (Calendar Year)	: 2.0	3.0	2.5	2.7
Ending Stocks	: 1.1	.5	1.6	1.5
U.S. Stocks/Total (Percent)	: 5.5	2.3	7.6	8.5
	:			
Soviet Union:	:			
Production	: 2.1	1.8	1.6	1.6
Utilization	: 1.7	3.1	2.3	2.3
Imports	: .4	1.3	.8	.8
Exports	: ---	.1	.1	.1
Stocks Change	: ---	---	---	---
	:			
Rest of World:	:			
Production	: 236.9	258.7	268.6	261.6
Utilization	: 217.0	261.9	272.4	267.0
Imports	: 8.2	11.6	11.2	10.9
Exports	: 7.6	9.9	9.5	9.0
Net Imports	: +.6	+1.7	+1.7	+1.9
	:			

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Agricultural Stabilization and Conservation Service (ASCS)
1983 Agricultural Outlook Conference, Session #11
Washington, D.C.



For Release: Tuesday, November 30, 1982

1982/83 Situation - The Records Continue

The 1982/83 situation continued to reflect record production and increasing stocks for the third successive year. Although producers in response to the announced acreage reduction program (ARP) reduced their harvested acreage in 1982, generally favorable growing conditions in nearly all production areas was more than offsetting. Yields rose to an all time high 35.6 bushels per acre producing the largest wheat crop (2,811 million bushels) in U.S. history. The 1982 production was about 1 percent above last year and nearly a fifth higher than two years ago.

Although variable weather conditions throughout the year threatened the final crop outcome, generally favorable growing conditions prevailed from Texas to the Canadian border in the Great Plains wheat belt. The perennial leading States of Kansas and North Dakota harvested their largest crop ever. In contrast, above normal winter damage and excessive spring rains in major Eastern and Southern production areas, along with dry and hot conditions in the Pacific Northwest, reduced yields significantly for both soft red and white wheat.

Overall, wheat growers adjusted the seeding of their 1982 crop only slightly in response to the announced ARP. Winter wheat plantings actually increased to a new high as seeding was completed before the ARP announcement. Spring wheat producers reduced from the previous year's plantings by 9 percent. As a result, total 1982 harvested acreage was below the record 80.9 million acres of a year ago by less than 2 million acres. However, higher yields more than compensated for this decline. Nationally, the average yield per harvested acre was an all time high 35.6 bushels, 1.1 bushels above 1981. A review of acreages, yields, and production by various production regions for 1981 and 1982 compared to historical data outlines regional changes in the production of wheat in the U.S.

Region	Harvested Area				Production				Average Yield	
	1976/77	1981/82	1982/83		1976/77	1981/82	1982/83		1976/77	1982/83
Pacific N.W.	6.1	5.9	5.5	:	277.2	335.5	288.2	:	45.8	52.0
Southern Plains:	28.3	32.0	33.0	:	756.2	872.2	1045.7	:	26.7	31.7
Northern Plains:	24.1	24.9	22.7	:	625.1	737.5	756.0	:	25.9	33.3
Southeast	2.2	6.9	8.7	:	75.1	287.9	317.7	:	33.4	36.3
Corn Belt	7.9	8.7	6.9	:	291.7	394.2	275.2	:	37.0	40.1
Southwest	1.7	1.9	1.5	:	100.6	129.6	104.2	:	59.8	67.2
Northeast	.6	.7	.6	:	22.4	26.4	23.4	:	34.7	39.0
U.S. Total	70.9	80.9	79.0	:	2148.8	2793.4	2810.5	:	30.3	35.6

PNW = ID, OR, WA; Southern Plains = CO, KA, NB, NM, OK, TX, WY; Northern Plains = MY, MT, ND, SD; Southeast = AB, AR, FL, GE, DY, LO, MI, NC, SC, VA, WV; Corn Belt = IL, IN, IO, MC, OH, WI; Southwest = AR, CA, NE, UT; Northeast = CN, DE, MD, MA, NJ, NY, PE, VE.

The quality of the hard red winter crop has been above average the past few years but this year's crop deteriorated considerably. Harvest delays from excessive rainfall and cool temperatures downgraded the crop. Protein was close to the 10-year average, but down nearly 2 percentage points from last year. The fungus disease "wheat scab" affected some HRW areas but less than 3.5 percent of such production was affected. Hard red spring quality was one of the best in recent years. The quality of the soft red, white and durum wheat crops was generally good.

Exports Expected To Be Large, But Less Than Last Season

At last year's Outlook Conference we were very bullish on 1981/82 marketing year prospects, even suggesting they might reach 2.0 billion bushels. Our optimism was clouded somewhat by of a number of factors --the continuing downturn in the world economy, the strengthening of the U.S. dollar in world markets, better than expected world production and political unrest. Record U.S. exports were still attained at nearly 1.8 billion bushels. Many of the same factors continue to plague the world today. U.S. exports of wheat for the 1982/83 season are presently estimated at 1.65 billion bushels, down principally because of reduced exports from the U.S. to the Soviet Union and intensified competition from other exporting nations for our markets. At this time, the U.S. share of overseas wheat markets is expected to dip slightly below last season's high of 48 percent. Export commitments to date are just over half of the season's projected volume. This compares to about two-thirds of final sales a year ago. Therefore, in order to achieve our current export estimate, average loadings for the remainder of the year need to increase by about 2.5 million bushels weekly. This is close to the average weekly pace that established last year's record shipments. Whether our current 1.65 billion bushel estimate is reached depends heavily on the Soviet Union.

President Reagan announced on October 15, 1982, that a total of 23 million metric tons of grain from the U.S. would be made available to the U.S.S.R. during the seventh year of the U.S.-U.S.S.R. grain agreement. The same assurances of reliable delivery would be extended to purchases above the 8 million metric tons, if the U.S.S.R. contracted for the additional tonnage during the month of November with shipment within 180 days from date of the contract. Soviet purchasing during the month of November has been slow.

Also, in an effort to establish a more competitive position in the world markets and to generate additional export sales, USDA announced a 3-year "Blended Credit" export enhancement program in late October. This program adds \$500 million in fiscal 1983 to existing Commodity Credit Corporation (CCC) export credit sales program. A portion of this program includes interest-free direct export credit blended with commercial export financing guaranteed by the Government. The program will be targeted to developing countries, especially new customers or those re-entering the U.S. markets. Most of the \$500 million allocated to the blended credit program has been utilized, going to countries such as Morocco, Egypt, Yugoslavia, Philippines and India. The impact of this program on U.S. agricultural exports will be beneficial.

Domestic Use Little Changed From Last Year

Apparent wheat food use (mill grind less flour exports) during the first 4 months of the marketing year was up only slightly from the same period a year earlier. However, the significance of this pickup is that it reflects a recovery from the slow milling activity in the latter months of the 1981/82 marketing year. Wheat food use disappearance in 1982/83 is projected to climb back on trend to 610 million bushels. Abundant supplies of low priced wheat have stabilized bread flour prices. Also because of the large supplies miller and bakers can continue buying "hand-to-mouth", minimizing inventory carrying costs. Increased use of the grain reserve by producers could limit readily available supplies of certain wheat classes, in the second half of the season.

October's stocks confirmed the earlier forecast that wheat feeding could follow a similar pattern to last season. Apparent feed disappearance during June-September was around 175 million bushels only slightly below a year ago. This is an indication that below loan level prices at harvest encouraged wheat in feed rations, particularly low quality discounted stocks. But the final 1981/82 volume charged to the feed-residual eroded away to a more realistic amount--50 million bushels--below the June-September period. This accounting pattern could be duplicated for 1982/83 meaning that the total amount fed may be around 150 million bushels, not significantly different from last season.

Wheat Prices At 4 Year Low-Loan Volume Soars

With the 1982 bumper crop boosting supplies to a record 4.0 billion bushels--up 5 percent from last year and 21 percent above two years ago--the 1982/83 marketing year price outlook (\$3.40-\$3.50) is expected to be

the lowest since 1977/78. Farm prices during the first 5-months of the 1982/83 marketing year (June-October) have averaged \$3.34 per bushel, more than 20 cents under the national average loan rate of \$3.55 per bushel. The last time farm prices were below the loan rate during the June-October period was in 1977 when they averaged 12 cents under the loan rate. Although farm prices since 1955 have on occasion averaged below the national average loan rate during the June-October period, the differential has not been as large as this year.

With farm prices below the \$3.55 per bushel loan rate, it is obvious that the maximum deficiency payment of 50 cents per bushel will be paid to wheat producers participating in the 1982 ARP. Estimated payments of about \$500 million will be issued to farmers in December, compared to \$415 million for the 1981 crop when all producers were eligible to receive deficiency payments.

As a result of the low farm prices, loan volume from the 1982 crop is nearly 50 percent higher than last year, even though only 42 percent of the 1982 crop is eligible compared to the total crop for 1981. Total loan volume this year may approach the record set in 1958 when 610 million bushels were placed under loan. The reserve loan of \$4.00 per bushel with an annual 26.5 cent per bushel storage payment has been a major contributor to this year's increased loan volume. The following table shows by region and selected States current and projected loan activity for the 1982-crop.

	: Implied : Eligible : Production: : (Mil.Bu)	: Total Loan: : Volume As : of Nov. 10: : (Mil.Bu)	: Quantities in: : Reserve as : of Nov. 10 : (Mil. Bu)	: Reserve: : As of %: : of Loan: : Volume	: Projected Volume : Total : Loan : Reserve	: (Mil. Bu)	: (Mil.Bu)
State	:	:	:	:	:	:	:
<u>Southern Plains</u>	:	:	:	:	:	:	:
Colorado	: 40.1	: 14.0	: 12.8	: 91.4	: --	:	--
Kansas	: 149.8	: 82.2	: 76.8	: 93.4	: --	:	--
Nebraska	: 33.2	: 15.4	: 14.4	: 93.5	: --	:	--
Oklahoma	: 90.6	: 51.7	: 50.2	: 97.1	: --	:	--
Texas	: 63.1	: 45.6	: 45.1	: 98.9	: --	:	--
Total	: 376.8	: 208.9	: 199.3	: 95.4	: 235	:	225
<u>Northern Plains</u>	:	:	:	:	:	:	:
Minnesota	: 56.4	: 25.3	: 19.6	: 77.4	: --	:	--
Montana	: 166.0	: 29.5	: 16.1	: 54.6	: --	:	--
North Dakota	: 226.5	: 72.4	: 52.6	: 72.7	: --	:	--
South Dakota	: 59.3	: 27.0	: 21.9	: 81.1	: --	:	--
Total	: 508.2	: 208.9	: 110.2	: 71.5	: 280	:	200
<u>Pacific Northwest</u>	:	:	:	:	:	:	:
Idaho	: 46.1	: 14.8	: 12.4	: 83.8	: --	:	--
Oregon	: 24.5	: 5.8	: 4.5	: 77.5	: --	:	--
Washington	: 66.7	: 26.4	: 23.4	: 88.6	: --	:	--
Total	: 137.3	: 47.0	: 40.3	: 85.7	: 65	:	55
Selected State Total:	: 1022.3	: 410.1	: 349.8	: 85.3	: 580	:	480
U.S. Total	: 1179.6	: 436.6	: 366.0	: 83.8	: 610	:	500

How Big Will the Farmer-Owned Reserve (FOR) Become

The net size of the FOR at the end of the 1982/83 season is estimated to be 950 million bushels or larger. As of mid-November, total quantities in the FOR (1976 thru 1982 crops) exceeded 955 million bushels. The following table shows the reserve breakdown by the year and class as of 10/31/82.

Crop Year	Hard Red Spring	Durum	Soft Red Winter	Winter	White	Mixed	Total
	-----Million Bushels-----						
1976	40.3	3.2	9.9	.1	3.7	--	57.2
1977	28.2	1.0	24.6	.3	.8	--	54.9
1978	10.8	1.1	7.0	--	.6	--	19.5
1979	12.2	.6	19.1	--	2.2	--	34.1
1980	33.3	6.4	126.1	1.8	34.9	1.1	202.6
1981	63.5	33.0	79.2	14.0	30.6	1.1	221.4
1982	65.3	17.2	213.7	12.0	36.2	1.5	345.9
Total	253.6	62.4	479.7	28.2	109.0	2.7	935.6

The FOR quantities from the 1976 and 1977 crops will be reaching the five-year limit and cannot be continued under the reserve. Nearly 85 percent of the 112.1 million bushels will mature during the first three months of calendar year 1983. Loan redemption values for this grain will vary between \$2.40 and \$2.50, as this grain carried only a \$2.25 loan level. Producers will have two options--either redeem the loan amount plus interest or forfeit the loans to CCC. It seems unlikely that any of this grain will be acquired by CCC. The Secretary could allow producers holding 1976 and 1977 grain to extend their repayment date beyond maturity. If such an action is taken, producers would be required to pay interest from maturity and storage payments would cease. Also, before the end of this season (May 31, 1983), more than 50 million bushels of the 1978 and 1979 crop reserve grain will be reaching the initial 3-year maturity. These producers will have three options--(1) redeem the loan amount plus interest (2) forfeit the loans to CCC or (3) extend the reserve contract for another two years. No grain is expected to be acquired by CCC from these contracts. Most is expected to be redeemed with the balance continued under reserve for another two years. The repayment value for 1978 and 1979 reserve contracts will vary from \$2.60 to \$2.85 per bushel (1978 crop loan was \$2.35; 1979-\$2.50). No other reserve grain matures before May 31, 1982.

1982/83 Carryover Near Record

The highest level of carryover wheat stocks (1502 million bushels) in the U.S. occurred as of May 31, 1961. Stocks at the end of the 1982/83 season are now estimated at 1461 million bushels and could exceed the 1961 record if export projections and food residual estimates are not realized. The breakdown of the 1982/83 carryover by wheat class follows:

	Hard Red Winter	Hard Red Spring	Soft Red Winter	Durum	White	Total
Total Stocks	692	441	58	140	130	1461
Est. FOR Stocks	485	245	30	75	115	950
Est. CCC Inventory	126	45	8	2	4	185
Implied Free Stocks	81	151	20	63	11	326

Based on expected levels of FOR and CCC stocks on May 31, 1983, it would suggest that the "free stocks" position of some classes, such as white, might become quite tight. This situation is presently being reflected in the white wheat market, where prices are nearly equal to year earlier levels while prices of other classes are ranging from 10 to 25 percent below year earlier levels.

Movement into the FOR has maintained a brisk pace and, if this continues, levels shown above could become larger, further tightening the "free stocks" of other classes of wheat. Even though some tightness may occur, little price strength is expected.

1982 Acreage Reduction Program (ARP)

With stocks building to excessive levels, an acreage reduction program was implemented for the 1982 crop of wheat. The major provisions of the program were:

--ARP percentage - 15% from an acreage base or 17.65 percent of acreage for harvest.

--Acreage Base - Established using higher of 1981 or average of 1980 and 1981 acreage planted for harvest. Adjustments for crop rotations and other abnormal factors were authorized.

--Target Price - \$4.05 per bushel.

--Loan Price - \$3.55 per bushel.

--No offsetting or cross compliance.

--Farmer-Owned Reserve (FOR) Provisions:

- a) Entry Price - \$4.00 per bushel.
- b) Storage Payment - 26.5 cents per bushel per year (paid in advance).
- c) Interest charges - Interest at prevailing CCC rate charged first year of contract; waived second and third years.
- d) Trigger "Release" Price - \$4.65 per bushel.
- e) Entry into FOR - Direct.
- f) Early Redemption - Penalty is equal to one-half of the current CCC interest rate from date contract is approved. In addition, standard redemption values and all storage payments paid must be repaid.

Participation in the 1982 ARP varied by region and is shown in the following table:

	: Total	: Enrolled	: Complying	: Acreage for	: Percent	: Ac. for
	: Acreage	: Acreage	: Acreage	: Harvest on	: of Base	: Harvest
	: Base	: Base	: Base	: Complying	: Complying	: As % of
	:	:	:	: Farms	:	: Complying
	:	:	:	:	:	: Base
	:-----Million Acres-----			:-----Percent-----		
Pacific NW	: 6.3	5.9	3.4	2.6	54.6	75.1
S. Plains	: 37.1	33.6	16.6	12.7	44.8	76.2
N. Plains	: 27.9	27.1	19.6	15.2	70.4	77.3
Southeast	: 7.7	3.1	1.3	.9	17.0	68.0
Corn Belt	: 9.2	5.7	2.0	1.3	22.3	64.0
Southwest	: 1.9	1.2	.6	.3	30.9	60.1
Northwest	: .6	.3	.1	1/	20.6	64.1
U.S. Total	: 90.7	76.9	43.6	33.0	48.2	75.5

1/ 78 thousand acres.

Program participation was not as high as hoped, generally because of the late announcement of the program (January 29, 1982) and the favorable growing conditions this spring.

Outlook for 1983 Wheat Crop

The 1983/84 season will be the second successive year that wheat growers will have to decide about participating in an ARP. Their decisions on what and how much to plant will be based on market conditions and market expectations for wheat and competing crops, the weather, and the benefits offered by the 1983 program. Early indications of winter wheat plantings would suggest that there may be little change from last year's 66.3 million acres. A higher level of participation is expected under the 1983 program. Therefore, if winter wheat plantings don't decline much, producers will need to make their participation decision next spring. If crop conditions are favorable through compliance dates, overall participation under the 1983 wheat program could be reduced below expectations. Farmers are reluctant to destroy growing crops especially, good ones. The size of the 1983-crop depends heavily on future weather developments and 1983 program participation. However, the prospects for a large crop are highly probable because of the widely disbursed production areas in the U.S. Evidence to support this contention can be drawn from experiences of the recent past. For instance, the major drought in the Northern Plains in 1980 and the massive freeze in the Central Plains in 1981, but in both years the total U.S. crop set new records. With the exception of the 1980 wheat crop, yields in the U.S. have risen every year since the 1976 crop. In 1980, yields were down less than a bushel per acre from the previous years record yield.

A lower than anticipated level of participation in the 1982 ARP, declining exports and record production caused carryover levels to increase further prompting the Secretary to announce an ARP again for the 1983 crop. The initial program announcement was made July 14, 1982, but this announcement was superseded by Congressional action--the Omnibus Budget Reconciliation Act of 1982. This legislation mandated a paid land diversion program coupled with an ARP. Major provisions of the currently announced program are:

- Acreage Adjustment Percentage-15%-ARP plus 5% paid land diversion (20% ARP announced on July 14, 1982.
- Diversion Payment Rate-\$2.70 per bushel.
- Acreage Bases-Shall be same as established for 1982 program purposes. Crop rotation and other adjustments continue to be authorized.
- Target Price-\$4.30 per bushel.
- Loan Price-\$3.65 per bushel.
- No offsetting or cross compliance requirements.
- Sign-up period-October 1, 1982, through March 31, 1983.
- Advance Payments-Payments equal to one half of the estimated deficiency rate (32.5 cents per bushel) and diversion rate (\$1.35 per bushel) are available to producers at signup.
- Farmer-Owned Reserve Provisions-to be announced later.

The supply situation has changed materially since the 1983 wheat program was announced. Pressure has been mounting for additional program changes to increase the effectiveness of the adjustment effort. A number of proposals are under review.

Provisions of the FOR are also under review and this program will be announced later. The size of the FOR is becoming a concern and adjustments in the program are needed.

Participation in the 1982 ARP was 48 percent of the base. 1983 levels of participation are estimated at 60 to 65 percent of the total acreage bases. Estimates by region are:

<u>Area</u>	1982 Compliance Level	Estimated 1983 Compliance Level
	-----Percent-----	
PNW	54.5	50-60
S. Plains	44.8	60-70
N. Plains	70.4	70-80
Southeast	17.0	25-35
Corn Belt	22.3	25-35
Southwest	30.9	30-40
Northwest	20.6	20-25
U.S. Total	48.2	60-65

Acreage Production and Yields Down but Total Supply at About the Same as Last Year's Record

Rice production in 1982 based on November 1 estimate will be 152.8 million hundredweight, down almost 18 percent from last year's record crop of 185.4 million hundredweights. This production is based on harvested acreage of 3.29 million acres, down 13 percent from last years record harvested acreage of 3.80 million acres and a yield of 4,650 pounds per acre, also representing a decline of almost 5 percent from last year's record yield of 4,873 pounds per acre. All producing States except Missouri reduced plantings. Missouri increased acreage by 4 percent. The major reduction were in three States. Arkansas reduced acres by 14 percent to 1.35 million acres; Mississippi reduced by 22 percent to 265,000 acres; and Texas reduced by 21 percent to 460,000 acres. Yields are below 1981 in Arkansas, California and Mississippi--higher in Louisiana, Missouri and Texas. The reduction in harvested acreage and production is attributed, principally to producers participation in the 15 percent acreage reduction program announced by Secretary Block on January 29. Producers have certified a total of 3.1 million acres--about 77.9 percent of the total base acreage. Acres planted for harvest in complying farms total about 2.4 million acres. The 1982 acreage compliance report for the major rice-producing States is as follows:

	<u>Total Base Acres</u>	<u>Base Acres Enrolled</u>	<u>Base Acres Complying</u>	<u>Acres Planted on Complying Farms</u>	<u>Complying as a Pct. of Total Base</u>
Ark.	1,550,814.8	1,311,829.4	1,215,731.1	948,964.8	78.39
Calif.	690,020.1	589,444.1	438,511.6	340,923.3	72.00
La.	715,832.1	667,725.1	563,637.7	445,191.1	78.74
Miss.	358,948.7	315,223.8	278,447.7	200,323.2	77.57
Mo.	88,251.4	79,047.8	58,267.6	45,646.7	66.02
Tex.	632,008.0	559,646.7	529,626.8	408,910.3	83.80
USA <u>1/</u>	3,969,460.3	3,535,932.0	3,092,526.5	2,393,573.0	77.91

1/ Includes Minor States.

However, given the large beginning stocks of 48.9 million hundredweights of which an estimated 17.6 million hundredweights are CCC-owned and when combined with production of 152.8 million hundredweight plus imports of about 400,000 hundredweights total supply is estimated at 202.1 million hundredweights compared to last year's record total supply of 202.2 million hundredweights.

Export Demand Reduced for 1982/83

Rice exports for 1982/83 are currently projected at 82.7 million hundredweight or about (2.7 million tons, milled basis) unchanged from last year. The world rice harvest is projected to be 3 percent smaller than the record

1981/82 crop of 276 million tons (milled basis). However given large stocks in South Korea, Japan, Taiwan, Burma, Thailand and Indonesia, the U.S. will face keen competition in the world markets.

Domestic Use Increasing

Domestic food rise and industrial use in 1982/83 are projected to reach 62.5 million hundredweights, or an increase of about 5 percent from last year. The increase indicates the continued expansion in food use and also the use of rice by brewers.

Ending Rice Stocks High and Virtually Unchanged from Beginning Stocks

Ending stocks are projected to be 46.9 million hundredweight, down only slightly from the beginning stocks of 48.9 million hundredweights. Of these, CCC-owned inventory is projected to be about 22 million hundredweights. Farm prices for rough rice are currently projected to range from \$7.50 to \$8.25 per hundredweight. The five-month (Aug.-Dec.) average price received by farmers is projected to be below the national average loan and purchase rate of \$8.14 per hundredweight. As a result, deficiency payments will be made to eligible producers at the rate \$2.71 per hundredweight (target price of \$10.85 less the loan rate of \$8.14).

Rice Outlook Workshop

A separate workshop on the rice situation and outlook is scheduled to be held December 14 in Little Rock, Arkansas. The location is the Executive Inn, 707 Interstate 30, between 8:30 am to 3:30 pm.

1983-Crop Rice Program

The 1983-crop rice program must be announced no later than January 31, 1983. The period for public comment on the program ended November 26, 1982. We would expect an announcement during December.

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1983 Agricultural Outlook Conference, Session #18

For Release:



The Foreign Agricultural Service has staff in about 65 countries which report on the major agricultural commodity of those countries. We receive reports from about 35 to 40 countries on the dairy, livestock and poultry commodities, the number varying slightly depending on the commodity. From a review of these countries, we believe that world production levels of meats will be below the previous year for 1982. Red meat and poultry production is not expected to advance noticeably in 1983. The current weak economic climate, in most countries is the pressing domestic consumption thus affecting both domestic productions and trade levels. Also the price relationships among the meats, and among forage/feedgrain are impacting on demand for particular meats.

POULTRY

A softening of demand, particularly in the middle Eastern countries has dampened expansion plans in exporting countries such as Brazil, France, and the United States. Weaker domestic demand, and in turn, domestic consumption, have also hurt production in many countries including the United States. Worldwide production of poultry meat in 1983 is forecast to increase about 2 percent over 1982 output, but this will still not bring total meat production to the 1981 level. This rate of expansion for poultry is well below the average of recent years. Current forecasts are that global (the countries reviewed) production of poultry meat will be 22 million metric tons (MT) for 1982 and 22.6 million MT in 1983.

In the United States low prices are holding 1982 poultry production to a 1 percent increase in 1982 and forecasts for 1983 call for a 2 percent further increase. An absolute decline in turkey production is one reason for 1982's low growth, but it should recover in 1982.

Egypt was the largest market for U.S. exports of whole broilers in 1981. However, during the first nine months of 1982, Egypt did not import this commodity from the United States. Several factors have contributed to the decline in U.S. exports to Egypt. The strengthening of the U.S. dollar and Egyptian shortage of foreign exchange have had a negative impact on U.S. exports of all commodities. In addition, in February of this year Egypt imposed a ban on imports of frozen chickens and table eggs from all sources. Currently, imports of frozen chickens and small amounts of table eggs have resumed, but tenders have gone, for the most part, to Brazil a country that subsidizes exports, hence one that is capable of offering very low prices.

In Brazil, poultry exports are expected to show a 5 percent increase at the end of this calendar year compared to last year. This is far below the pace that Brazil's poultry industry maintained during the late 1990's. Prospects for the near future does not anticipate a return to such rapid growth. While exports will rise 5 percent, production is expected to rise 7 percent. Brazil's economy is in a substantial recession, and compounded by a world recession, expansionary tendencies have been dampened.

The government of Brazil offers incentive programs by providing concessional credit to both producers and exporters. This has assisted Brazil's export ability and has helped to attract overseas markets -- most notably in the Middle East. Brazil's major competition for the Middle Eastern market has in the past been the United States, but more recently it has been the European Community. In 1981, over 80 percent of Brazil's total exports were the Middle East, with primary markets in Saudi Arabia, Iraq, Egypt, and Kuwait. Since 1980, Brazil has also supplied the Soviet Union with a growing share of their poultry imports. Brazil has concluded contracts with Iraq which is making it the dominant supplier of broilers and table eggs in 1982 and probably 1983.

EC poultry exports to third country markets, led by large French broiler sales to the Middle East, improved significantly in 1982. However, export gains in 1983 should be somewhat less as major increases in demand in importing countries are not anticipated at present. The relative strength of the dollar has dampened demand for US goods, and because of this, not only are EC poultry products more attractive, but the subsidies offered have probably increased less than they would have otherwise.

Poultry production in France is expected to expand by 20 percent in 1982, compared with 1981 levels. Nearly all of this production will be marketed through exports with the majority headed for Middle Eastern markets. France's large expansion in export trade is attributable to its liberal subsidy policy. Prospects for 1983 call for an increase in production and exports of only 3 percent as a response to the slack demand is seen.

BEEF

World trade in beef and veal declined slightly in 1982 as production in a number of countries dropped. World production of beef and veal in 1982 are expected to reach 40,560 million MT compared to 40,580 million MT in 1981. Forecasts for 1983 call for levels to remain virtually the same at 40,560 million MT.

U.S. beef and veal exports may rise 10 percent in 1982. Shipments to Japan, which has an MTN agreement to increase imports of high quality beef, are expected to provide most of the gain. U.S. exports in 1983 are seen rising another 7 percent with Japan once again stepping up imports of high-quality beef. The current negotiations with Japan could modify this although most effect could be expected in future years.

The United States remains a net importer of beef. Australia's drought and the increasing value of the dollar have encouraged higher imports of lean beef for manufacturing this year even though prices are low. Total beef imports in 1982 are expected to rise 10 percent, over last year's level. During September and October, Australia, New Zealand, and Canada agreed to restrain their exports to the U.S. in order to avoid exceeding the Meat Import Law 1982 trigger level of 1.3 billion pounds. Shipments in excess of agreed levels are likely to be put into bonded storage. The release of these stocks in 1983 will boost beef imports early in the year, but total imports for the year are seen falling as trade and production in Australia and some other countries resume more normal patterns.

In Australia, cattle slaughter is estimated to be 8.8 million head in 1982. Drought conditions that have decimated grazing capacity in the major producing areas of New South Wales and Queensland have forced liquidation. Such high slaughter levels have pushed cattle numbers down--to approximately 23 million from over 33 million in 1976.

For 1983, beef exports from Australia are expected to decline. However, weather will continue to be a factor. Assuming a return to more normal weather patterns, the slaughter rate is expected to decline around 10 percent, with a similar decline in beef and veal production. It is anticipated that export levels for 1983 will approximate 720,000 MT, a reduction of over 5 percent from 1982 levels.

In New Zealand, where the cattle industry suffered somewhat from drought and the ensuing pasture deterioration, slaughter and production are expected to increase 2 and 4 percent, respectively, for 1982. Almost all the additional beef produced has entered the export market, and much of this to the United States. Exports to the U.S. reached a level where, with voluntary restraints, imports no longer entered for consumption after early October. It is calculated that without the VRA, New Zealand's exports would have been 10 to 15 percent above permitted levels. For 1983 it is anticipated that exports will be down somewhat. This is premised upon cattle numbers remaining at the 8 million head level, hence a decline in slaughter and production of 3 and 4 percent, respectively. Both Australian and New Zealand beef export levels are affected to some extent by world sheepmeat demand.

Argentina's beef exports, slated earlier to reach last year's level of 500,000 MT, may have difficulty in attaining this. The two-tiered exchange policy initiated by the government in July has recently created havoc for exporters. Apparently, the financial or purchase rate of the peso exceeds the commercial or selling rate, and shipments to the Middle East as well as the Soviet Union have been slowed. High domestic prices combined with the government's requirements for utilizing the commercial exchange rate for export sales have caused beef export profit margins to disappear.

The constant change in policy by the government of Argentina makes the 1983 prospects difficult to discern; however, livestock retention is forecast to continue, somewhat limiting the beef supply for consumption and exports. Major customers will continue to be the Soviet Union and the European Community.

EC exports of beef and veal to third countries hit near record levels in 1981, but are projected to drop significantly in 1982. Sluggish world demand and a reduction in EC exportable supplies due to a sharp decline in EC beef intervention stocks during the first half of 1982 are the major causes of this drop-off in exports. From a high of over 300,000 MT (PWE) at the beginning of 1981, EC intervention beef stocks fell to around 40,000 MT in the spring of 1982 as relatively strong cattle prices reduced intervention purchases. The lower stock levels will likely continue to affect EC exports into 1983. EC imports of fresh and frozen beef from third countries, most under concessionary arrangements, are not expected to change greatly in 1982. However, prepared and preserved beef imports should be down, primarily due to reduced U.K. imports of corned beef from Argentina.

Japanese beef imports slumped 8 percent in the first 8 months of 1982, but are expected to match the 1981 total by year's end. Its MTN agreement with Australia, providing for an expansion of import quotas to 135,000 MT in Japanese fiscal year 1982 (ending in March 1983) will encourage higher imports in the last half of 1982 and should facilitate an 11 percent boost in 1983 imports. Future beef imports may be affected by the outcome of negotiations in which the United States is seeking liberalization of Japanese beef import policies.

PORK

World trade in pork is expected to decline in 1982. Much of the decline in trade is attributed to East Germany where exports dropped almost 70,000 MT. On the import side, Japan's purchases during 1982 have been particularly low, falling almost 55,000 MT. Prospects for 1983 do not call for any significant change from 1982 levels. Exports are expected to remain below 1981 levels and imports are anticipated to fall below the weak 1982 numbers.

The U.S. balance of trade in pork will worsen in 1982. Declining production, higher prices, and a stronger dollar may reduce exports by 20 percent and boost imports especially from Canada by 10 percent. In spite of reduced competition from Denmark (as a result of an outbreak of hoof and mouth disease), U.S. pork exports to Japan have been adversely affected by higher prices, a weaker yen, and increased competition from Taiwan, Canada, and some Scandinavian countries. In 1983 U.S. pork imports may slacken off by 8 percent while exports should rise about 2 percent. However, this 1983 trade situation hinges upon the direction U.S. pork production takes. Presently, production levels are low, but an upward swing is anticipated for 1983.

Japanese pork imports are expected to fall 20 percent in 1982 following last years record high imports. A 3 percent increase in domestic production, stagnating consumption, higher world prices resulting from lower supplies, and a weakening yen have contributed to the decline in imports. Japan's ban on imports of fresh, chilled, and frozen pork from Denmark will be reviewed in the near future, but it is likely to remain in effect into 1983. Japanese pork imports in 1983 are seen falling another 7 percent as production gains 2 percent and consumption remains relatively flat.

Total EC exports of pork to third countries are expected to decline in 1982 as Danish exports of fresh pork to Japan have been halted since the outbreak of hoof and mouth disease earlier this year. Exactly when Denmark will be able to recommence pork shipments to Japan is uncertain; however, the ban could run through the first half of 1983.

LAMB, MUTTON, AND GOATMEAT

World trade in lamb, mutton, and goatmeat will increase in 1982. An increase in exports from New Zealand was almost offset by a decline from Australia. While other countries of the world were almost the same in numbers, exports from Turkey doubled as more moves to its neighbors.

In New Zealand, production levels are expected to be down slightly this year, while exports are up. Much of this stronger trade has been generated by low prices and the New Zealand Government's minimum guaranteed price schemes that encourage production. As a result, flock numbers have continued to expand in 1982 from the 70 million head level on January 1, 1982, even though dry conditions are affecting numbers in some areas.

In Australia the sheep industry, which is primarily concerned with wool production, remains quite profitable due to benefits of a wool stabilization scheme, guaranteeing producers a minimum price. In spite of the fact that both lamb and mutton prices have fallen in 1982, sheepmeat production remained steady though flock numbers declined slightly due to drought conditions. It is anticipated that inventory figures on January 1, 1983 will show sheep numbers close to the 136 million mark.

For 1983, wool prices in Australia should continue to be an incentive to build sheep flocks as government price supports lessen the risk to producers. Demand for live sheep is expected to continue high from the Middle East. Both of these factors should help continue the trend towards expansion in the sheep industry.

EGGS

Global egg production is forecast at 355 billion units in 1982, an increase of 5 billion pieces over 1981. This increase is comparable to those of recent years despite reported low prices to many producers. Expansion was largely in Japan, following last years decline; in the EC, to meet export demand, and in the USSR, to meet the annual plan.

From the above we can see that a large number of factors affect world production and trade. The most important is the weak world economy depressing demand. Changes in exchange rates and use of subsidies by some countries have also impacted. Weather and other situations of course have their effect. All of these are combining during this time to depress world livestock production and trade.

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Agricultural Outlook Conference, Session #18
Washington, D.C.

For Release: Tuesday, November 30, 1982



For the second consecutive autumn, the outlook for the red meats industry is clouded by the uncertain economic outlook. In addition, many livestock producers, particularly those on mixed crop-livestock enterprises, have had cash flow problems. Despite low grain prices, producers have been more interested in reducing debts and improving cash flow than in expanding herds. This trend continued through fall, as many farmers attempted to generate internal capital for harvest expenses. Gilts have been sold, rather than retained for the breeding herd. Cow herds in many areas are being closely culled or liquidated, particularly where cattle are a supplementary enterprise. Consequently, total red meat production will likely decline for the second consecutive year in 1983.

FACTORS AFFECTING THE RED MEATS INDUSTRY

The Economy

The economy continues to perform sluggishly despite the July 1 tax cut. The unemployment rate has risen above 10 percent and at the same time, the average length of work week for those who are employed continues to decline. The end result has been a dramatic slowdown in the rate of increase in real income. Real per capita incomes in 1982 (measured in 1972 dollars) are expected to have risen only about 1 percent from 1979. By mid-1983, though, the economy is expected to show signs of expansion. At this time, the length of work week should begin to rise, and with this rise should come higher incomes. If these developments occur, they should give consumers tangible evidence of a sustainable recovery. The July 1, 1983 tax cut should give consumers additional reason to loosen their purse strings.

Production Costs Decline

Lower prices for agricultural inputs and a slower rate of increase in nonagricultural costs have been favorable for producers over the last year. The prime interest rate has declined sharply from the 18.9 percent average in 1981 and the 16.5 percent average this spring to the present rate of 11.5 percent. The rate of increase in the Producer Price Index has been cut in half, with a 4 to 5 percent rate of increase expected this year, compared with 9.2 percent in 1981. Interest and inflation rates are likely to continue near present levels in 1983.

This fall's domestic harvests are again record large. In addition, reduced U.S. feed grain exports and only a small increase in feed use have resulted in feed grain carryover at the beginning of the 1982/83 feeding year more than double last year's total. Only modest increases in exports and feed use are expected in 1982/83. Consequently, the farm price of corn may average \$2.15 to \$2.35 per bushel, compared to \$2.45 in 1981/82 and \$3.11 in 1980/81. The mid-October farm prices of corn in Indiana, Iowa, Georgia, and Texas, were \$1.89, \$1.95, \$2.23, and \$2.62 per bushel, respectively, showing the sharp contrast in prices between the surplus Corn Belt and deficit feed grain areas. The farm price of grain sorghum may average \$3.85 to \$4.10 per cwt this year, compared to \$4.02 in 1981/82, and \$5.25 in 1980/81.

A record-large soybean harvest and a sharp increase in ending stocks have resulted in large soybean meal supplies at lower prices. Soybean meal prices at Decatur are projected to average \$150 to \$175 per ton in 1982/83, compared to \$182.50 last year and \$218.20 the year before last.

Forage supplies in most areas of the country are quite adequate for the smaller cattle inventory entering the winter feeding season. Pasture and range feed conditions on November 1 were even with last year's average but slightly above the 10-year average. Conditions in the Southeast were much improved over the drought situation of last year. However, parts of the Pacific Northwest may have problems because of a smaller crop of poorer quality hay harvested this past summer. Additional rains are needed in the Southern Plains, but conditions have improved. The main uncertainty at this time is wheat pasture development in the High Plains. Wheat pastures in mid-November provided limited grazing due to the poor moisture conditions throughout most of the High Plains wheat grazing area.

Hog production costs have declined sharply during 1982, with the largest year-to-year reductions occurring in the first half of this year. Feed costs have been cut \$5 to \$7 per 100 pounds of grain. Farrow-to-finish and feeder pig production operations have benefited the most from the lower costs. However, for those who buy feeder pigs for finishing, the price of feeder pigs has risen \$15 to \$20 a head in 1982. Costs of production for all hog producers in 1983 should rise only modestly as grain prices remain favorable.

Similarly, cattle feeding costs have declined about \$10 per 100 pounds of grain between 1981 and 1982. At the same time, feeder cattle prices have declined slightly, and interest rates have dropped. Production costs are expected to rise in 1983 as feeder cattle prices increase, because of reduced supplies. However, lower feed costs through at least spring, and little change in interest rates, will help offset feeder cattle price increases.

Costs of producing feeder cattle have been aided by the slowdown in the general inflation rate and much improved forage supplies in 1982. The rate of cost increases should continue to moderate in 1983 as most producers hold down inventories and thus have excess forage supplies.

Normally, large crops and lower prices favor expanded livestock production. However, the poor financial situation for many producers, particularly on mixed crop-livestock farms, has resulted in the selling of livestock to improve cash flow, which at the same time reduces feed use.

EXPANSION STALLS

The result of financial pressures and economic uncertainty has been a reluctance to expand. Producers have been concerned with reducing debts and improving cash flow, particularly in the mixed crop-livestock production areas. Selling the gilt or cow has been viewed by many producers as a better choice than the uncertain returns in the future.

Hogs

Some Hog Expansion Expected

Feeding margins have been positive since early this year, and are expected to remain positive in 1983. Although feeding margins improved in 1982, producers continued to liquidate their herds. The inventory of all hogs and pigs on June 1 was down 13 percent and was the lowest June 1 inventory since 1975. During the summer quarter, hog prices were record high. In addition, corn prices declined as export demand weakened, and the likelihood of a record-large corn crop increased. However, the September Hogs and Pigs report indicated that the breeding herd in the 10 quarterly reporting States was down 13 percent from a year earlier, and producers indicated intentions to have 10 percent fewer sows farrow during September-November. Producers also indicated intentions to farrow 4 percent fewer sows in December-February.

Actual farrowings may differ from these reported intentions. Although gilt retention has not started as might be expected, some producers are expected to rebuild breeding herds, especially after the corn harvest ends in late November. The end of the corn harvest will reduce the need for cash to cover current operating expenses.

Pork Production Continues Decline

Commercial pork production in the fourth quarter of this year is forecast to total 3,500 million pounds, down 16 percent from a year earlier. Fall hog slaughter is drawn from the inventory of market hogs weighing 60 to 179 pounds on September 1, and that figure was down 12 percent from a year earlier. In December 1981, producers were liquidating their breeding herds because of low hog prices. However, this fall, sow slaughter has declined, and gilt retention is expected to rise--both factors will hold down hog slaughter.

Hog slaughter in the first half of 1983 will be drawn from the June-November 1982 pig crop. The U.S. breeding hog inventory on June 1 suggested that the June-August pig crop in the nonquarterly reporting States probably declined more than in the 10 quarterly States. The

inventory was 10 percent below a year earlier in the 10 quarterly States, and was down 15 percent in the nonquarterly reporting States. On the same date, the producers in the 10 quarterly reporting States indicated intentions of having 9 percent fewer sows farrow during June-November, while producers in all States indicated intentions of reducing farrowings 10 percent.

Commercial pork production in the first quarter of 1983 is forecast to be down about 10 percent from a year earlier. Hog slaughter during the quarter is drawn primarily from the number of hogs weighing under 60 pounds on September 1 of the previous year. This weight group in the 10 quarterly reporting States was down 12 percent from a year earlier. Hog slaughter may not decline as much as suggested by the inventory change, though, because last year's harsh winter weather reduced barrow and gilt marketings.

Hog slaughter in the second quarter is drawn largely from the September-November pig crop. As indicated earlier, producers in the quarterly reporting States indicated intentions to have 10 percent fewer sows farrow during this past September-November. Hog slaughter in the second quarter is currently projected to be 6 to 3 percent below last year. But, the severe winter weather in January and February 1982 that slowed rates of gain caused some hogs that normally would have been marketed in the second quarter to be sold in the third quarter. Thus, slaughter in second-quarter 1983 is expected to decline 6 to 8 percent from this lower base.

Commercial hog slaughter in second-half 1983 may be 2 to 4 percent above a year earlier. Second half hog slaughter will come primarily from the December 1982-May 1983 pig crop. As of September 1, producers in the 10 quarterly States indicated intentions to reduce the number of sows farrowing during December 1982-February 1983 by 4 percent from a year earlier. The first farrowing intentions for March-May, as well as U.S. intentions for December 1982-May 1983, will be released in the December Hogs and Pigs report.

Given the relatively short supply of pork and an improving economy, hog prices may be in the mid-\$50's next fall. Corn at the farm will probably be near the loan rate of \$2.65 per bushel, if weather conditions are about average. Under these conditions, the hog-corn price ratio would be in excess of 20 to 1. Prospects of this ratio over 20 to 1 should encourage modest expansion by producers who already have facilities and are currently producing hogs. On balance, the December-May pig crop is expected to rise only modestly, instead of increasing sharply as in the past, following a period of high hog-corn ratios.

Total commercial pork production for 1983 may be 13.5 billion pounds, down 3 percent from 1982. This would be the third consecutive year of decline after the record-large 1980 output.

Cattle

Cattle Inventory Steady

All evidence indicates that expansion in the present cattle cycle has ceased in 1982. It began in 1979. The July 1 cattle inventory declined 1 percent from a year earlier, while the beef cow herd dropped 4 percent. The 1982 calf crop is expected to decline 3 percent--1 million head. Cow slaughter through September has been 10 percent above the relatively lower levels of a year ago. However, slaughter has been sharply higher in the Lake States-Corn Belt (19%), Southeast (16%), and Pacific Northwest (28%) regions. These three areas tend to have a larger number of mixed crop-livestock operations, where the cattle enterprise tends to be supplementary. Forage shortfalls in the Southeast and Pacific Northwest also undoubtedly contributed to the inventory reduction. Forage supplies have been rebuilt in the Southeast, but the Pacific Northwest may continue under pressure, particularly if this is a severe winter, requiring more supplemental feeding. In the remaining regions, cow slaughter has risen less than 5 percent over the relatively low levels of 1981. Cow slaughter in the Southern Great Plains declined 2 percent, while slaughter in the Central Great Plains rose 4 percent. However, slaughter has risen above seasonal levels in both of these areas this fall as the spring calf crop was weaned and grazing conditions deteriorated, particularly in the Southern Great Plains, due to dry weather.

Consequently, the inventory of cattle and calves on January 1, 1983 is likely to be unchanged to down 1 percent from this year's 115.7 million head. Total cow numbers are likely to be down about 4 percent from the 50.4 million head at the beginning of the year, with all the decline coming from the beef herd. While expansion of cattle numbers could resume in 1983, there is a greater possibility that cattle numbers will remain the same or, perhaps, show only a slight decline next year.

The primary reason for the sharp culling rate increase, or even herd liquidation, is the weak financial situation in the agricultural sector. Farms and ranches where income from the cattle enterprise is supplementary are reducing herd size to improve the cash flow or to reduce indebtedness, to save the primary source of income--the cropping enterprise. On farms and ranches where the cattle enterprise is a primary source of income, or the only source, cattle numbers are more likely to be maintained, with only cows which did not rebreed being marketed. With grain prices expected to remain relatively low until at least mid-1983, and only a sluggish economic recovery expected, cattle numbers are likely to show little change during 1983. However, the stage may be set in the second half of 1983 to encourage producers to expand in 1984.

Feeder Cattle Supplies Tighten

The supply of feeder cattle outside feedlots on October 1 was 1 percent smaller than a year ago. Calf numbers were unchanged, while yearling numbers declined 7 percent. However, more animals from the slaughter mix are being shifted to feedlots. Profits through much of this year have encouraged a shift away from nonfed steer and heifer slaughter to increased feedlot inventories, a trend which continues this fall. Nonfed steer and heifer slaughter declined about 200,000 head from a year ago during the summer quarter, and even larger declines are likely this fall. Calf slaughter is also likely to decline later this fall and into 1983. Consequently, feedlot placements this fall will remain large, increasing the number of cattle on feed on January 1.

However, with the 1982 calf crop 1 million head smaller, and fewer yearlings outside feedlots on October 1, the feeder cattle inventory is clearly moving down. With the smaller cow herd expected on January 1, an even smaller calf crop and, therefore, feeder cattle supply is likely in 1983. Evidence of a stronger economic recovery next spring could encourage retention of larger numbers of heifers, particularly where the cattle enterprise is a primary source of income, tightening feeder cattle supplies even more.

Beef Production

The number of cattle on feed in the 13 major feeding States was 7 percent above a year ago on October 1, and will likely remain above 1982 levels each quarter during 1983. However, because of reduced feeder cattle supplies and smaller feedlot inventory at the beginning of 1982, the year-to-year increase in the inventory will decline from the larger number expected at the beginning of 1983 to only slightly above a year earlier next fall. The general slowdown in inventory buildup occurs because the shift away from larger numbers of heavier yearling cattle outside feedlots to reduced slaughter of nonfed steers and heifers will be fairly well completed this fall. Further increases in placements will have to come from placing lighter cattle on feed. Marketings may rise 6 to 8 percent above a year earlier in first-half 1983. Feedlot placements may remain near to slightly above year-earlier levels through winter. However, placements through the remainder of the year may fall 1 to 4 percent below this year's large level. Consequently, marketings in the second half of 1983 may fall 1 to 3 percent.

For the year, fed cattle slaughter may rise only 1 to 2 percent, with all of the increase in first-half 1983. Nonfed steer and heifer slaughter is likely to decline another 15 to 20 percent from this year's 2.9 million head. Cow slaughter also is expected to decline, particularly beginning next spring. Slaughter is likely to decline 5 to 6 percent, with about 14 percent of the smaller January 1 cow inventory being slaughtered, compared to nearly 14.5 percent slaughtered in 1982.

Fed Beef Output Rises; Nonfed Declines

Cattle slaughter may fall 1 to 2 percent in 1983, with only about a 1-percent decline in production as slaughter weights rise modestly above the low 625-pound 1982 average. A larger proportion of beef production in 1983 will be fed beef, as all nonfed categories are expected to decline. Production may rise about 2 percent above 1982 levels in the winter and spring quarters. Third-quarter production will rise seasonally, holding down price gains, but it will likely decline about 1 to 2 percent from this summer's level. Sharpest year-to-year declines will occur next fall, when production may drop 4 to 5 percent below this year's level, and 2 to 3 percent below summer's. The drop will be because of both smaller numbers of cattle placed and the fact that a larger proportion of the placements in the spring and summer quarters will be calves, which take longer to reach slaughter weights than the heavier yearlings.

Veal

Calf slaughter rose 11 percent in 1982, but is expected to decline next year. Smaller calf crops in 1982 and likely in 1983 will continue to tighten feeder cattle supplies. Consequently, more of the calf crop will be shifted into stocker production or placed on feed. Veal production is likely to decline 8 to 10 percent.

Lamb and Mutton

Commercial lamb and mutton production is increasing for the third consecutive year, after many years of decline. For the first 9 months of 1982, production was up 10 percent. The largest year-to-year increases in slaughter were in the Pacific and eastern Corn Belt regions. Fourth-quarter lamb and mutton production is forecast to increase 2 to 4 percent over a year ago. For the year, lamb and mutton production may total 353 million pounds, up 8 percent from 1981. Production may rise another 5 percent in 1983.

Red Meat Consumption To Decline

Per capita 1983 red meat consumption on a retail weight basis is expected to be at the lowest level since the mid-1960's, as it was in 1982. Pork consumption may average slightly below 55 pounds, the lowest level since 1976, when 53.7 pounds were consumed. The only lower figure since 1970 was the 50.7 pounds consumed in 1975. This year marks the third consecutive one of reduced pork consumption, and about a 13-pound decline from the 68.3 pounds consumed in 1980. Pork imports may decline modestly from the 600 million pounds expected this year to about the 550-million-pound levels of 1980 and 1981. Pork exports may remain near this year's estimated 245 million pounds.

Beef consumption next year may average about 76 pounds per capita, 1 pound below this year's average and almost 20 pounds below the record 94.4 pounds consumed at the peak of the cattle cycle's liquidation

phase. This 1983 figure may well be the lowest beef consumption since 1965. Beef supplies will be lower not only because of reduced production, but also because of a decline in beef imports from the 1.9 billion pounds expected for 1982.

Beef exports are expected to increase in 1983. Exports have risen each year since 1976. However, they still represent only about 1 percent of commercial production, compared to 7 to 9 percent for imports. Imported beef is primarily lower quality processing meat, whereas exports tend to be higher quality fed beef for use in the international hotel and restaurant trade.

Per capita veal consumption on a retail weight basis may average about 1.5 pounds in 1983, the same as in 1982. Veal slaughter remains low, as it has since 1979, because of smaller calf crops at this stage of the cattle cycle. Lamb and mutton consumption is expected to continue the slow rise which began in 1979. Consumption has risen from 1.3 pounds per capita in 1979 to 1.5 pounds in 1982. It is expected to be 1.5 pounds again next year. Imports are expected to remain near this year's 20 million pounds, well below the 32 million average recorded in 1980 and 1981.

RED MEAT PRICES TO RISE MODESTLY IN 1983

Red meat prices may rise only modestly until the second half of next year. Sometime late next spring, the economy is expected to begin improving enough to allow unemployment to stabilize, and the length of work week for those employed to rise. These developments should give consumers tangible evidence of a sustainable recovery. The July 1, 1983 tax cut should give consumers additional reason to loosen their purse strings.

Hog and Pork Prices

Hog Prices Continue to Rise

During the first 9 months of 1982, barrow and gilt prices at the 7 major markets averaged \$55.54, up 23 percent from a year earlier. Hog prices averaged \$57 in October, and about \$53 per cwt in November. However, prices are expected to rise sharply as slaughter declines during December. Prices for the fourth quarter are expected to average \$56 to \$58 per cwt, up about 36 percent from a year earlier. Supplies of pork as well as of other meats are expected to tighten in the coming weeks. Frozen pork supplies as of September 30 were 13 percent below last year's relatively low 207 million pounds.

Hog prices in 1983 may average about \$59 per cwt, compared with \$56 in 1982. Prices in the first and second quarters are expected to average \$58 to \$62 per cwt. If the projected production of 6.65 billion pounds is realized, this would be the lowest first-half output since 1978 and the smallest per capita consumption since 1976. Low production will strengthen prices. However, continued high unemployment and short work weeks will reduce consumer purchasing power and limit price gains.

Hog prices in the second half of 1983 are expected to average in the high \$50's per cwt. Although pork production is expected to rise, the year and a half of sharply declining production will make pork supplies relatively tight. The economy is expected to start recovering in the second quarter, and another tax cut is scheduled for July. The two factors should increase consumer purchasing power, and thus strengthen hog prices.

Pork Price Gains to Moderate

In 1982, farm-to-retail price spreads may average in the mid 80-cent range, up about 5 percent from a year earlier. Most of the increase is due to higher wholesale-retail spreads. Farm-wholesale spreads may average about the same as last year because packers bid up hog prices earlier in the year to keep their plants running near full capacity. The major packers agreed to keep plants open in exchange for wage concessions. In 1983, the farm-retail price spread may rise modestly.

This year, retail pork prices rose about 15 percent from last year's \$1.52 per pound. Prices rose through the first 9 months, reaching \$1.91 a pound in October. Although pork supplies continue to be tight, retail prices are expected to moderate slightly in the fourth quarter from the October high.

Next year, retail pork prices may average 5 to 8 percent above 1982's \$1.75 per pound. Prices are expected to show little movement through the year.

Cattle and Beef Prices

Cattle Prices To Rise Through Spring

Prices of Choice fed steers at Omaha may average \$67 to \$68 in 1983, compared to about \$65 in 1982. Fed steer prices are expected to rise modestly through winter. A sluggish economy and continued uncertainty about job security will hold steer prices in the mid-\$60 range from late fall through winter, with prices rising modestly from present levels through the period. The present large farm-to-retail spread should allow for these modest live animal price increases through early spring, with little rise in retail prices. Seasonally declining meat supplies next spring, plus an expected improving economy and increased future job security, will likely allow prices to rise into the upper \$60's, with prices above \$70 quite possible. The extent of herd rebuilding and economic growth in the second half will play an important role in determining prices then. Prices are expected to peak by midsummer, with some modest declines expected next fall. A slow rate of economic growth, continued high unemployment, and a pent-up demand for replacement of durable goods will hold down beef price gains. Consequently, second-half fed steer prices may average \$65 to \$70.

Feeder Cattle Prices To Increase

Yearling feeder cattle prices at Kansas City will remain near fed cattle prices until next spring, as cattle feeders remain cautious buyers. Prices may average above \$70 next spring, particularly if grazing conditions are good and herd rebuilding becomes more evident. Feeder cattle prices may average in the upper \$50 range in second-half 1983. Prospects for larger pork and broiler production from next fall through 1984 are also likely to hold down bids. For the year, prices for yearling steers at Kansas City may average \$2 to \$4 per cwt above this year's \$65 average.

Feeder calf prices may be more volatile, with prices, particularly next spring, rising \$5 to \$10 per cwt above the yearling prices. Feeder calf prices this fall have averaged well below a year ago. Year-to-year discounts on heifer prices have been even larger. Poor wheat grazing prospects this fall have continued to hold down prices.

Utility cow prices may average in the low \$40's per cwt in 1983, only a couple of dollars above 1982. Cow slaughter is expected to decline, but continued relatively low feeder calf prices, as cattle feeders remain cautious, will hold down herd rebuilding and cow prices.

Retail Beef Prices To Moderate

Prices of Choice beef at retail will average about \$2.45 in 1982. However, despite expectations for higher fed cattle prices beginning later this fall and continuing through next spring, retail prices may rise only modestly. The farm-to-retail spread was record large in September, and remained large in October. However, the spread was narrow in the first half of 1982, and it is likely to narrow again through spring as fed cattle prices rise. Retail beef prices may average near \$2.50 in first-half 1983, with much of the year's increase occurring in late spring through midsummer. Second-half prices may average about \$2.57.

Lamb Prices

Choice slaughter lamb prices at San Angelo averaged \$58.66 per cwt in the first 3 quarters of 1982, down 3 percent from a year earlier. In the fourth quarter, prices are expected to average \$50 to \$53, about the same as last year. In 1983, prices may average \$55 to \$50--about the same as last year.

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1983 Agricultural Outlook Conference, Session #18
Washington, D.C.

For Release: Tuesday, November 30, 1982



Poultry and egg producers can look forward to lower feed costs in 1983, with poultry and egg prices averaging near the levels of this year. Prices are expected to remain weak in 1983, in spite of continued reduced supplies of red meats, as consumer budgets continue tight. An improvement in the general economy which significantly lowers unemployment could sharply strengthen poultry prices, given the expected reduced supplies of red meats.

Factors Affecting the Poultry Industries

Feed Costs

Feed costs from now through July 1983 should be lower than a year earlier. The corn crop for the 1982/83 marketing year is forecast at 8.3 billion bushels, up from 8.2 billion last year, adding to already large grain stocks. As a result, prices have declined. The farm price of corn during the 1982/83 marketing year is forecast to average \$2.15 to \$2.35 per bushel, down from \$2.45 per bushel in 1981/82. The soybean crop is also forecast at a record 2.3 billion bushels, up 14 percent from 1981. The price of 44 percent protein soybean meal at Decatur for the marketing year beginning October 1, 1982 is forecast to average \$150 to \$175 per ton, down from \$182.50 per ton estimated for 1981/82.

The Economy

Preliminary data indicate the Gross National Product (GNP) was unchanged in the third quarter, suggesting a recovery has not started. Consumers remained cautious about the future and consequently spending was sluggish, especially for durable goods (housing and automobiles). Current forecasts point towards sluggish growth in the economy through much of 1983.

The slow recovery in the economy is expected to keep unemployment at historically high levels through 1983. Those people that are fully employed are probably eating as much poultry and eggs as they want. The unemployed and under-employed are having to make fewer dollars cover their expenses. While poultry and eggs are usually a good buy, these people can only afford these items when sale-priced, which does not promote price strength. As a result, poultry and egg prices have been weaker than would have been expected given the overall level of meat production during 1982. The slow recovery in the economy, with implied high unemployment, will likely limit price gains for poultry and eggs.

Broilers

Broiler prices have remained weak in 1982, especially when compared to the sharp increases for beef and pork. Normally, when beef and pork prices rise sharply, consumers shift from the higher-priced red meats to broilers, thereby strengthening broiler prices. While some consumers may have shifted from red meats to broilers this year, the supply of broilers for domestic consumption also increased due to lower exports of broilers. This increase in domestic supplies, coupled with a sluggish consumer demand, held wholesale broiler prices below their 1981 average.

Producers were able to reduce their feed costs during 1982 because the large crops harvested in 1981 resulted in lower prices of corn and soybean meal. During the first 3 quarters of 1982, feed costs per pound of liveweight broiler produced dropped 17 percent.

Production of broiler meat during the first 9 months of 1982 totaled 9,127 million pounds, up about 1 percent from the same period in 1981. Numbers were about the same, so all of the increase was due to heavier weights, 4.02 pounds per bird, up 1 percent. Weekly reports of chick placements suggest that October-December broiler output will be down about 6 percent from the previous quarter and up 2 percent from a year earlier.

The weak prices have forced producers to cut costs; one method has been to reduce pullet placement in the hatchery supply flock. The cumulative placements of pullets 7 to 14 months earlier gives a rough measure of the hatchery supply flock, and some indication of the number of hatching eggs available. Cumulative pullet placements are 10 percent below a year earlier in the fourth quarter. However, weekly reports of broiler eggs set continue to be 1 to 2 percent above last year. One source of additional eggs for domestic use is the weak foreign demand for hatching eggs. During January-September, U.S. exports of hatching eggs have been down 16 percent from last year. If hatching egg exports continue weak, broiler eggs not exported may be used for domestic production. Cumulative pullet placements will continue to trail last year through next May by 7 to 8 percent. Broiler producers can increase hatching egg supplies by delaying the sale of old hens and by setting smaller eggs than normally used. For these reasons, cumulative pullet placements provide a rather inconclusive measure of available broiler hatching eggs.

1983 Production

In spite of reduced cumulative pullet placements, broiler producers are expected to increase 1983 output slightly. The large corn and soybean crops just harvested will hold down feed costs to producers. The expected declines in red meat supplies through the first half of 1983 should encourage broiler producers to expand. However, the sluggish economy will likely continue to limit sales and moderate the expansion.

Data on cumulative pullet replacements indicate hatching eggs could now be in short supply. Delayed sales of old hens could add some additional eggs to the hatching egg supply. However, the overall reduction in the hatching egg supply should be enough to slow expansion in the first half of 1983.

Unless broiler prices improve more than currently expected during the first half of 1983, pullet placements are not expected to increase enough to result in any further expansion in broiler production during the last half of the year. On balance, a 1 to 3 percent increase in broiler production for 1983 seems likely.

Broiler producers have invested time and money developing markets for their products, and do not want to lose the market share they have developed. Moreover, most of them are interested in increasing their market share. Thus, if some producers believe others are thinking of reducing output, they may expand, which will increase their share of the market.

1983 Prices

A slight increase in production and a weak recovery in the economy likely will hold prices near 1982 levels. Price rises are expected to be limited by consumers' reluctance to pay more when their incomes are growing very little.

In years past, prices have been strengthened by foreign demand. However, thus far in 1982, the strong dollar and declining foreign currency reserves by importing countries have reduced broiler exports by 30 percent from last year. A slight increase is expected in exports during 1983, but not enough to strengthen domestic prices.

Turkey

Turkey producers realized unfavorable returns from mid-1981 through the second quarter of 1982. The economy was expected to improve in late 1981, and with declines in pork production, producers planned on a strengthening demand for turkey. Therefore, they built large stocks of frozen turkey and increased poults hatched. The economy weakened, and turkey prices declined sharply as processors tried to clear their stocks. It has taken 9 months to reduce turkey supplies enough to begin strengthening prices. Production costs this year have been below last year and, with current crop prospects, total costs are expected to remain near current levels in 1983.

Production

Turkey production in the first half of 1982 was 1 percent below the same period in 1981. However, per capita consumption during January-June was 7 percent more than 1981, as stocks were reduced. Negative returns

in the first half reduced poult hatch; thus, production in the remainder of the year is expected to be 2 percent less than in 1981. Positive returns encouraged increased production in July and August. To maintain consumption slightly below last year's level, stocks will likely be drawn down, possibly near beginning 1981 levels.

If profits continue favorable and stocks relatively low, turkey producers will likely expand production in 1983. However, producers have stated intentions to hold 9 percent fewer hens on December 1, 1982 than a year ago. Thus, the expansion may be limited by availability of hatching eggs. Producers may expand first half 1983 production by about 6 percent above 1982. In the second half of 1983, turkey output may increase about 2 percent above this year's reduced level.

Prices

The price of 8-16 pound young hen turkeys in New York averaged 59 cents per pound in the second quarter, down from 64 cents in 1981, reflecting the continued impact of the stocks of frozen turkey. Prices have strengthened as stocks declined. The price of young hens in the third quarter averaged 65 cents per pound, up from 63 cents last year. Prices this fall will be strengthened by a more moderate level of frozen turkey stocks, and reduced supplies of competing meats. Prices for young hen turkeys may average 67-69 cents in the fourth quarter, sharply above last year's 55 cents. Without large stocks of frozen turkey and reduced supplies of red meats, prices are expected to be stronger in 1983--possibly averaging 62-68 cents per pound, up from 61-63 cents this year.

Eggs

Preliminary cost estimates suggest that egg producers had favorable returns in the first quarter of 1982, helped by lower feed prices. In the second and third quarters, lower egg prices caused returns to slip below costs. Egg producers had unfavorable returns during most of 1980 and 1981.

As a result of these losses, producers, have been reducing the number of replacement pullets added to the flocks since the beginning of 1980. During 1981, the number of egg-type chicks hatched was down 6 percent from 1980, after being down 7 percent in 1980 from 1979. Through September, egg-type chick hatch was 1 percent below January-August 1981 and 7 percent below 1980.

To offset the decline in replacement pullets, egg producers have been keeping their hens in production longer, in order to maintain production. One indication of this is the percentage of the flock that has been force molted. Force molting gives hens a rest from laying, so that when they start laying again, they are more productive than before their rest. During 1982, the percentage of the flock that had been force molted was lowest in March, at 18.6 percent. During January, February, and March, 1982; approximately 19 percent of the flock had been force

molted. The lower egg prices in mid-year encouraged additional light-type slaughter but the number of hens that had been force molted continued to increase and reached 20.5 percent on September 1. The increase in the percentage of the laying flock force molted suggest the average age of the flock is older, and producers are keeping their hens longer.

Egg Production

Egg production in June-August was 1,422 million dozen, down 1 percent from last year. With fewer replacement pullets and reduced slaughter of laying hens, egg production in September-November may be 1 percent below the 1,450 million dozen produced in 1981.

Producers are expected to remain cautious about expanding in 1983. They will likely continue to keep their old hens in the flocks as long as they are producing and returns are favorable. Egg production during 1983 may be about the same as in 1982, as low feed costs help moderate costs of production. But, production in the first half may be down slightly because of low numbers of replacement pullets. If the economy begins to show signs of recovery in the first half of 1983 and interest rates decline to encourage additional pullet purchases, egg producers are expected to increase output in the second half of 1983.

Egg Prices

The price of Grade A large cartoned eggs in New York in June-August was 64 cents per dozen. A sharp drop in foreign demand has weakened prices even with a cut in domestic production. Egg prices usually strengthen in September-November, when more eggs are used in holiday baking. Egg prices may average 69 cents in September-November, 1982--down from 77 cents last year. If producers keep output near last year's level, egg prices in the 1983 marketing year may average 67-73 cents, near the 70.8 cents in 1982.

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1983 Agricultural Outlook Conference, Session #21
Washington, D.C.

For Release: Tuesday, November 30, 1982



Milk production for the world's major dairy countries is continuing to expand and dairy surpluses are expected to plague policy makers in many of these countries throughout the 1980's. Although milk cow numbers have trended downward by some 5 percent since the mid-1970's, technological improvements in breeding, feeding, housing, and significant changes in herd structure have resulted in sharp gains in productivity. Yields per cow are up about 15 percent overall with much sharper gains registered in France, India, the United Kingdom, Italy, Ireland, and the United States. Substantial increases in productivity are expected in these countries as well as many others during the next several years.

Increases in consumption of fluid milk and manufactured dairy products have not kept pace with the expansion in milk output. Considerable uncertainty surrounds projections of consumption over the next five years as worsening economic conditions have dampened consumer demand for dairy products. Even with an improved world economic situation which would bolster the upward trend in cheese consumption and increase the use of dairy products in developing countries, the overall outlook is for milk production to grow faster than available outlets.

Many uncertainties cloud the future, such as the need of the USSR to import dairy products on a large scale as they have the past four years. Some observers feel that the USSR and other Eastern bloc countries will continue to have considerable difficulty in producing sufficient dairy and livestock products to meet the demands of their people. If that is the case, then the East European countries may provide an important export market for dairy products over the next several years. However, while poor grain crops and forage dramatically curtailed Soviet milk output during the past few years, some recovery in milk output is apparent this year and the Soviets have ambitious targets for expanding milk production in the future.

Other uncertainties which will impact sharply on world dairy product markets are the willingness of the European Economic Community, the world's largest milk producer and international trader in dairy products, to dispose of heavy supplies of surplus skim milk internally, and the willingness of the United States to continue holding large stocks of butter, cheese, and skim milk powder.

Now for a brief glance at world dairy supplies and the short term outlook for next year. Milk output for the 36 selected countries will total around 387 million metric tons or 853 billion pounds this calendar year, up nearly 1.7 percent from 1981. For 1983, prospects are for a comparable

year-to-year gain of about one and one-half percent. Although annual increases may slow for the European Community and the United States, Soviet milk production appears to be turning the corner on a 4 year down trend.

TABLE 1 - Fluid Cow's Milk Production

<u>Major Producers</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> (Estimated)	<u>1983</u> (Projected)
	(In million metric tons)			
EC-10	104.7	104.8	107.1	108.6
USSR	90.9	88.5	89.5	91.3
United States	58.3	60.2	61.3	62.4
Oceania (Aust./N.Z.)	12.4	12.0	12.0	12.0
Other countries*	114.4	115.1	117.0	118.5
Total	380.7	380.6	386.9	392.8

* Includes 22 other major milk-producing countries.

Stocks of butter and nonfat dry milk (NFDM) have expanded sharply for the European Community and the United States this year. By the end of 1982 world inventories of butter may reach 763 thousand metric tons and nonfat dry milk, 1,392 thousand tons, respective gains of 20 percent and 31 percent from stock levels at the end of last year. Considering the anticipated expansion in milk output next year and the likelihood that demand for dairy products will not strengthen very much, leaves us with the probability that butter and NFDM stocks will continue building in 1983 unless some dynamic measures are initiated to reduce the oversupply.

TABLE 2 - Year End Stocks of Dairy Products*

<u>Country</u>	<u>Butter</u>		<u>NFDM</u>		<u>Cheese</u>	
	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>
	(In thousand metric tons)					
EC-10	240	306	352	424	534	528
United States	195	243	404	608	443	517
Oceania (Aust./N.Z.)	84	94	89	130	62	73
Non-EC West Europe	24	26	24	22	149	139
Japan	41	37	40	42	5	8
Canada	20	34	43	53	61	55
Mexico	-	-	72	80	-	-
Other ^{1/}	30	23	39	33	42	46
Total	634	763	1,063	1,392	1,296	1,366

* Year end stocks for 1982 are estimated

^{1/} Includes 13 other selected dairy product producers.

Currently the EC is moving to reduce its butter and NFDM intervention stocks. The Community may reinstate its export subsidies on butter sales to the USSR which were eliminated in December 1980. Also, the EC plans to subsidize the domestic sale of 120,000 metric tons of Christmas butter this year to the general public as well as an additional unspecified amount for domestic welfare and social programs. Subsidized sales of NFDM for animal feed could also help to reduce the huge surplus stocks of that product.

The United States, meanwhile, is expanding its donation programs to needy persons overseas. Under the P.L. 480 Title II and the recently reinstated Section 416 programs, considerable amounts of NFDM will be shipped abroad. Early estimates indicate that for fiscal year (FY) 1983 foreign donations may be as much as 300,000 metric tons of NFDM compared to 102 thousand tons in FY 1982. Extensive domestic donations to the needy are also helping to curb the burgeoning government stocks. For FY 1982, 64 thousand tons of cheese, 9 thousand tons of butter, and 3 thousand tons of NFDM were distributed under special programs along with the normal program outlets of 79 thousand tons of NFDM to schools, military, V.A. hospitals, prisons, etc. Some expansion in the special donations program in addition to the normal programs is planned for FY 1983.

World Dairy Product Prospects

The world output of butter and anhydrous milkfat (mostly butteroil) for 1982 at 6,099 thousand metric tons is up around 3 percent from a year earlier. However, butter consumption has slackened, resulting in the rise in stocks by year's end. International trading of butter is down this year as exports from the European Community have fallen. In 1981 there was relatively strong demand from the Middle East and Eastern Europe but butter sales to those markets dropped sharply this year. Butter prices on world markets during first half 1982 ranged between \$2,125 to \$2,250 per metric ton, free-on-board (f.o.b.). This fall, prices have been quoted in the \$2,000 to \$2,050 per ton range. For butteroil, prices averaged around \$2,400-2,500 per ton last spring but have since declined along with butter prices. Some of the weakness in butter prices, as with other dairy products, can be accounted for by the appreciation of the United States dollar, but ample world supplies and reduced demand are also factors behind the "softening" in butter prices.

The NFDM picture is even less encouraging. Production this year is up nearly 4 percent from 1981 levels. Although consumption appears to be somewhat higher, stocks are building, particularly in the EC and the United States. International market prices for the skimmed milk powder had reached the \$1,100 per ton f.o.b. level in late 1980 and fluctuated in the \$1,050-1,100 per ton range throughout 1981. During first half 1982, prices declined some \$50 per ton reportedly because of the strengthening in the U.S. dollar. However, by mid-1982 the market seemed somewhat unstable. Prices since then have dropped significantly and currently are being quoted in an \$800-850 per ton f.o.b. range. Purchases of NFDM by such traditional importers as Mexico and Japan appear to have been made at much lower average prices this year than a year ago.

For cheese, world production is up about 3 percent this year and consumption is expected to rise by a comparable amount. Stock levels worldwide will be a little higher by year's end because of the sharp gain in U.S. Government-owned inventories. The outlook for next year is for only a 1 to 2 percent rise in world cheese output and consumption. Prices for cheese have been much more stable on world markets this year than for butter and skim milk powder. International prices for cheddar cheese have fluctuated around \$1,750 per ton f.o.b. since early 1982. Reportedly competition on world cheese markets has increased in recent months as traders look with concern at U.S. stock levels and an indication that the United States is preparing to sell surplus cheese abroad. With the exception of 9,400 metric tons exported to Poland in 1981 and 1982, no CCC stocks have been sold abroad since the mid-1960's.

Economic Research Service, USDA
1983 Agricultural Outlook Conference, Session # 21
Washington, D.C.



For release: Tuesday, November 30, 1982, 4:00 p.m.

Record milk production and a record level of government purchases despite improved commercial disappearance highlight the 1982 dairy situation. Potentially, 1983 presents the same picture. Milk production will be larger and commercial disappearance will likely improve, but USDA will continue to remove large amounts of product from the market.

Milk Price Support: Recent History

Before looking at the outlook for production, use and prices in 1983 let's review the recent history of dairy price supports. The Food and Agriculture Act of 1977 and the 1979 amendment mandated the minimum price support be 80 percent of parity with semiannual adjustments. Early in 1981 legislation was enacted to forego the April 1, 1981 semiannual (mid-year) adjustment in support prices. Thus, the support price on April 1, 1981 was held at the October 1, 1980 level of \$13.10 per cwt for milk with a fat content of 3.67 percent (\$12.80 at 3.5 percent fat) until September 30, 1981. Then the support level was raised (as required) on October 1 to 75 percent of parity--\$13.49 per cwt--because the 1977 Act had expired. Subsequent special legislation, enacted on October 20, allowed the level of support to be "rolled back" to \$13.10.

The December 22, 1981 enactment of the Agriculture and Food Act (Farm Bill) allowed the level of support to be continued at \$13.10 for the rest of the 1981/82 marketing year. In addition, the 1981 Farm Bill set minimum levels of support for the final three years of the bill--\$13.25 for 1982/83, \$14.00 for 1983/84 and \$14.50 for 1984/85. The Act also contained provisions for higher levels of support, 70 to 75 percent of parity, if Government removals and/or costs remained below certain "trigger levels".

On March 22 and 23, 1982, USDA held a public dairy symposium at Kansas City to gather input for drafting recommendations to Congress about changes in the price support program. On May 5 USDA announced an emergency dairy plan to deal with surplus milk production, surplus stocks disposal and improving dairy product demand. Some parts of the plan were to be implemented administratively, but other sections required legislation. The key section being that the Secretary of Agriculture be given discretionary authority to set the price support lower than allowed in the 1981 Farm bill.

During the spring and summer several different bills were introduced in Congress calling for changes in dairy legislation to deal with the surplus milk production and the expanding government holdings of butter, cheese, and nonfat dry milk. The Senate and House held hearings on the

dairy problem and the different bills. The House included dairy provisions in the budget legislation that would override the 1981 Farm bill. Likewise, the Senate also included dairy provisions in its budget legislation--but different from those of the House.

During August the House and Senate worked out the differences between their versions of the budget bill, including the dairy provisions. Enactment of the Omnibus Budget Reconciliation Act of 1982 on September 8 resulted in new dairy legislation. The new law set \$13.10 per cwt as the minimum support price for the marketing years beginning October 1, 1982, and October 1, 1983. For the marketing year beginning October 1, 1984, the minimum support will be the level of parity that \$13.10 represents on October 1, 1983. In addition, effective October 1, 1982, to September 30, 1985, the Secretary of Agriculture may provide that 50 cents per cwt be deducted from the proceeds of the sale of all milk marketed commercially by producers, if net price support purchases for the marketing year are expected to equal or exceed 5 billion pounds milk equivalent. The funds are to be remitted to the Commodity Credit Corporation (CCC) to offset part of the cost of the milk price support program. Effective April 1, 1983, to September 30, 1985, the Secretary may provide for deduction of an additional 50 cents per cwt, if net marketing year purchases are expected to go over 7.5 billion pounds milk equivalent. At the same time, though, a program must be established to refund the second 50-cent deduction to those producers who lower their output by a specified amount.

Today's outlook is based on the assumption that the minimum support level provision of the budget (dairy) law and the deductions are implemented. Thus, the support price that was set on October 1 at \$13.10 per cwt for manufacturing grade milk with 3.67 percent fat (\$12.80 at 3.5 percent fat) will be unchanged until October 1, 1984. This support is the minimum allowed and is the same support price that was put into effect October 1, 1980. In addition, the Secretary of Agriculture will implement a 50-cent-per-cwt deduction for all milk marketed beginning December 1 and a second 50-cent-per-cwt deduction beginning April 1, 1983. The deductions are expected to remain in effect for all of 1983 and 1984.

Milk Prices Below 1981

Prices received by farmers for milk in October were up seasonally from the July level, but were still below a year earlier. The gain from July reflects the higher fat content of October milk compared with July and a higher fluid utilization proportion. The price shortfall from a year earlier was primarily the result of continued surplus production, but also the result of the slightly lower support price. The support level was \$13.49 per cwt for the first 20 days of October in 1981 and then was "rolled back."

October prices for manufacturing grade milk averaged \$12.80 per cwt--up 50 cents (4 percent) from July but 10 cents below a year earlier. The October price of Grade B milk after adjusting to 3.67

percent fat, was \$12.62 per cwt, 48 cents below support. Thus, October marked 31 consecutive months that manufacturing grade milk prices (adjusted for fat content) have failed to reach support.

Prices received by farmers for all-milk reached a seasonal low in June and have risen since--averaging \$13.80 per cwt during October. For first-half 1982, the all-milk price averaged 25 cents per cwt (1.8 percent) below a year earlier. Farm milk prices may rise 10 to 20 cents by December; due to a normal increase in fat content and a higher fluid milk utilization rate caused by seasonally lower production and higher fluid sales. In 1983, the all-milk price is expected to be little changed from 1982. But, the effective returns per cwt received by farmers for milk in 1983 could average 6 percent or more below 1982, given the 50-cent deduction beginning December 1 and the second 50-cent deduction starting April 1.

Feed Prices Lower

The decline in feed ingredient (corn and soybean meal) prices this summer have partly been reflected in lower dairy feed prices. The price of 16-percent protein dairy ration was \$171 per ton during October, down \$12 (6.6 percent) from a year earlier and \$10 below May. This decline in feed costs, coupled with an all-milk price which decreased less--1.4 percent in October--has resulted in a milk feed price relationship of 1.61, the highest value since January 1979.

With the record harvest currently being completed, feed prices likely will show little upward movement and therefore will trail year-earlier levels at least through the first half of 1983. Meanwhile, with farm milk prices expected to show a seasonal decline from January to June, the milk-feed price relationship will move lower, but will remain above this year throughout the first half of next year. However, if the milk price is adjusted to account for the forthcoming 50-cent-per-cwt deductions the milk-feed price relationship moves below year-earlier levels starting next April, but remains above 1980 levels.

Output Gains Continue

Milk production during the second quarter of 1982 increased 1.1 percent from a year earlier. The gain was due to 93,000 more milk cows and a modest increase in output per cow of 7 pounds (0.2 percent) from a year earlier. During the third quarter production was up 2.3 percent, the result of 101,000 more cows and an increase of 42 pounds (1.4 percent) in output per cow. With the number of dairy herd replacements per 100 cows record large on July 1, some additional expansion in the herd will likely occur this fall. In addition, the milk-feed price relationship is expected to continue very attractive for heavy concentrate feeding. Thus, year-over-year gains in output per cow will likely occur. As a result, milk production is expected to continue to increase this fall, as it has since mid-1979. This year's production will be about 2 percent above the record 132.6 billion pounds in 1981.

Dairy farmers' reactions to the December 1 and authorized April 1 deductions will play a key role in determining the size of 1983's milk production. The deductions add uncertainty to other economic factors that point toward additional milk production--low feed prices, large forage supplies, and unfavorable farm and non-farm alternatives. If farmers react quickly to the forthcoming deductions and start to reduce their herds or leave the industry, production late in 1983 could be less than year earlier levels, leaving total output about 1 percent above this year. However, if producers delay reactions until after next spring's flush production period, total 1983 output will show a sizable increase from 1982.

Dairy Product Prices Unchanged

Wholesale prices for butter, cheese, and nonfat dry milk continue stable. They have been nearly unchanged since October 1980 because supplies are more than ample and the CCC support purchase prices are unchanged. In September, the Bureau of Labor Statistics (BLS) index of wholesale dairy prices was 249.3 (1967=100), up only 1.5 percent from a year earlier. Since the support price and the support purchase prices did not increase this fall and the 50-cent deductions have no direct effect on processor costs for milk, wholesale dairy product prices are expected to be near current levels through mid-1983.

Retail dairy product prices are expected to average 1 to 2 percent higher this year than in 1981, because farm-to-retail marketing costs are up more than the decline in farm prices. The September BLS index of retail dairy prices was 247 (1967=100), up 1.1 percent from September 1981. Retail dairy products prices will likely increase somewhat again in 1983, also because of higher farm-to-retail costs.

Use of Milk Improves

Commercial disappearance of manufactured and fluid dairy products during January-September increased 1.7 percent from a year earlier, on a milk-equivalent, fat-solids-basis, a gain of 1.5 billion pounds. Total disappearance for 1982 is expected to be 122 billion pounds, a gain of 1.9 billion pounds and a strong recovery from 1981, but less than expected given the decline in real dairy prices this year. The weak general economy and gains in unemployment were likely the principal causes, but increased domestic donations of dairy products by USDA and the reduced expenditures on school feeding programs probably also had an impact. Commercial disappearance is expected to again be up 1.5 percent in 1983. Real prices of dairy products will likely decline again, next year, but the same factors that slowed the gains in commercial use this year will again be important in 1983.

USDA purchases during 1982 on a milk-equivalent, fat-solids-basis are expected to increase 1.6 billion pounds--partly because of the 2.6 billion gain in production compared with the gain in use of 1.9 billion, but mostly because of a reduction in commercial stocks of nearly 1 billion pounds. With commercial disappearance projected to improve in

1983, but with some gains in milk production expected, little reduction in the level of USDA purchases is likely. Government stocks as purchases exceed donations, in 1983 will continue to expand.

To recap, the dairy industry can expect 1983 to be similar to this year. Milk production will likely increase enough to offset a gain in commercial use, thus USDA removals will remain large and keep farm milk and retail dairy product prices near year-earlier levels.

Table 1--Dairy summary, 1980-82

Item	Unit	1980	1981	1982	Percent change 1981-82
			Annual 1/		
Milk production	Bil. lb.	128.5	132.6	135.1	+1.9
Milk per cow	Lb.	11,889	12,147	12,252	+0.9
Number of cows	Thou.	10,810	10,919	11,024	+1.0
Milk prices: All-milk	Dol./cwt.	13.00	13.80	13.55	-1.8
Manufacturing grade	do.	12.00	12.70	12.65	-0.4
Cash receipts	Mil. dol.	16,605	18,106	18,226	+0.7
Value of dairy rations	Dol./cwt.	7.42	8.05	7.45	-7.5
Milk-feed price ratio	Lb.	1.48	1.44	1.54	+6.9
Utility cow prices, Omaha	Dol./cwt.	45.73	42.01	39.85	-5.1
			January-September		
Wholesale prices:					
Butter (Chicago, Grade A)	Ct./lb.	136.6	147.6	147.6	0
American cheese (Wisconsin assembling points, 40-lb. blocks)	do.	130.5	139.1	137.6	-1.1
Nonfat dry milk (High heat, F.O.B. Central States)	do.	86.73	93.00	93.13	+0.1
Dairy products (BLS)	1967=100	227.4	245.1	248.5	+1.4
USDA net removals:					
Butter	Mil. lb.	207.6	307.1	337.7	+10.0
American cheese	do.	307.5	489.8	525.4	+7.3
Nonfat dry milk	do.	524.2	676.8	779.0	+15.1
Evaporated milk	do.	11.8	14.6	15.5	+6.2
Milk equivalent	do.	7,351	11,212	12,198	+8.8
Retail prices (BLS): 2/					
All foods	1967=100	251.3	273.6	285.3	+4.3
Dairy products	1967=100	224.8	243.1	246.8	+1.5
Manufactured products output:					
Butter	Mil. lb.	865.6	925.8	963.7	+4.1
American cheese	do.	1,806.5	1,997.4	2,059.0	+3.1
Other cheese	do.	1,172.8	1,193.9	1,268.4	+6.2
Nonfat dry milk	do.	929.2	1,022.9	1,100.4	+7.6
Canned milk	do.	562.2	564.4	553.9	-1.9
Cottage cheese	do.	639.4	597.0	573.9	-3.9
Ice cream	Mil. gal.	653.0	651.5	663.5	+1.8
Ice milk	do.	237.3	236.0	233.9	-0.9
Imports of dairy products:					
Total milk equivalent	Mil. lb.	1,230	1,453	1,786	+22.9
Commercial disappearance:					
Total milk	Mil. lb.	88,945	89,650	91,140	+1.7
Butter	do.	641.0	621.6	653.0	+5.1
American cheese	do.	1,488.0	1,567.1	1,610.8	+2.8
Other cheese	do.	1,284.3	1,341.9	1,412.1	+5.2
Canned milk	do.	507.6	504.2	485.9	-3.6
Nonfat dry milk	do.	426.1	346.2	319.6	-7.7
Fluid sales in Federal order markets:					
Whole milk	Mil. lb.	15,071	14,443	13,980	-3.2
Low-fat milk	do.	10,796	11,140	11,262	+1.1
Total	do.	25,867	25,583	25,242	-1.3

1/ 1982 estimated. 2/ For all urban consumers.

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1983 Agricultural Outlook Conference, Session #30
Washington, D.C.

For Release: Wednesday, December 1, 1982



Retail food prices this year have averaged about 4-1/2 percent higher than in 1981. This is the smallest annual increase in food prices since 1976. A number of factors have affected the food and agricultural sector and have contributed to the slowing of food prices. Record crop production and weak export demand have led to large domestic supplies of grains and soybeans which have pushed down livestock feeding costs and the farm value of cereals, bakery products, and vegetable oils. The price support for dairy products has been unchanged this year leading to the smallest retail dairy products price rise since 1972. A lower general inflation rate has held down food marketing costs. Stagnant real disposable incomes have limited consumer food demand. These factors have had and will continue to have important roles in limiting food price rises.

Today I will discuss the current food situation and the outlook for 1983. First, food price trends since the end of the 1970s will be reviewed with implications for the 1983 price outlook given. Then the role of food marketing costs in recent food price moderation will be discussed. We will then look at the situation and outlook for prices of individual food categories, followed by a discussion of the per capita food consumption outlook.

Recent Trends in Food Prices

Food price rises have trended downward for the last three years. Following double digit increases in 1978 and 1979, food prices have risen at successively lower rates in each year since. This year's food price rise of about 4-1/2 percent will be the smallest annual increase since 1976. It will also mark the seventh of the last eight years that food prices have risen less than the general inflation rate.

Table 1--Food Price Indicators

Consumer price index category	Change from previous year				
	1979	1980	1981	1982 ^p	1983 ^f
	<u>Percent</u>				
Food	10.9	8.6	7.9	4-1/2	3 - 6
Food away from home	11.2	9.9	9.0	5-1/2	4 - 6
Food at home	10.8	8.0	7.3	4	3 - 6

p = preliminary. f = forecast.

Prices for both food at home and food away from home have slowed in recent years. Grocery store food prices for food consumed "at home" have slowed from nearly an 11 percent increase in 1979 to about a 4 percent rise this year. Prices for food eaten away from home in restaurants, cafeterias, and fast-food establishments rose over 11 percent in 1979, about double this year's 5-1/2 percent rise.

Moderate food price changes are expected in 1983 in both the "at home" and the "away from home" markets. This reflects record wheat, corn, and soybean crops harvested this year, larger production of fruits and vegetables, slow recovery of consumer food demand and agricultural export demand, and a lower general inflation rate. Grocery store food prices are likely to rise 3 to 6 percent next year while prices for food away from home are expected to be up 4 to 6 percent. These increases imply an overall rise of 3 to 6 percent in food prices in 1983.

Within this range, the current assessment indicates a food price increase of about 4 percent for 1983. Conditions which would push food price increases towards the upper end of the forecast range would be poor weather, stronger export demand for agricultural commodities and consumer demand for food, and larger increases in food marketing costs. In contrast, very good weather, weaker agricultural export demand and consumer food demand, and lower-than-expected marketing cost increases would hold food price rises near the bottom of the forecast range next year.

Looking at the U.S. Department of Agriculture's market basket statistics, the underlying causes of the food price moderation can be seen. The retail cost of the market basket represents prices for domestically produced foods sold in grocery stores and consists of two components--the farm value of foods and the farm-to-retail price spread. These data account for about 82 percent of food at home.

First, the farm value of foods--accounting for slightly over a third of the retail cost of the market basket--has risen slowly for 3 years and is expected to again show only a small increase in 1983. This largely reflects weak domestic demand for food and export demand for agricultural commodities, with only slight improvement in demand expected in 1983.

Table 2--Market Basket Statistics

Category	Relative weight	Change from previous year				
		1979	1980	1981	1982 P	1983 f
		<u>Percent</u>				
Retail cost	100	11.7	7.2	7.7	4	3 - 6
Farm value	35	10.7	5.5	2.8	2	1 - 4
Farm-to-retail price spread	65	12.3	8.3	10.5	5	4 - 7

p = preliminary. f = forecast.

Second, the farm-to-retail price spread--representing the charges for marketing food--has risen significantly less since 1979, especially this year. Continued moderation in the spread is expected in 1983. This is especially important for food prices because of the relatively large weight (about 65 percent) that the spread has in determining retail food prices.

Food Marketing Costs

The sharp decline in the rate of increase of the farm-to-retail price spread this year reflects significant moderation in food marketing costs. These costs have risen about 5 percent this year, down from an 11 percent rise in 1981. This decrease in food marketing costs parallels the decline in the general rate of inflation which has fallen from 10.4 percent in 1981 to about 6-1/2 percent this year. With the general inflation rate expected to slow some next year, food marketing cost increases will remain moderate. Four major factors--labor, packaging, energy, and transportation--account for over three-fourths of all food marketing costs.

Table 3--Major Food Marketing Costs

Category	Change from previous year		
	1981	1982 P	1983 f
	<u>Percent</u>		
Food marketing costs	11	5	4 - 7
Labor	10	7	5 - 7
Manufacturing	9	7	4 - 6
Wholesaling	9	8	6 - 8
Retailing	11	6	5 - 7
Packaging	7	-2	2 - 5
Paperboard and paper products	9	0	2 - 5
Polyethylene resin	2	-25	3 - 6
Tin cans	5	4	1 - 4
Glass containers	12	8	4 - 7
Fuel and power	19	5	8 - 12
Electricity	14	11	7 - 10
Diesel and fuel oil	24	-5	5 - 8
Natural gas	14	19	15 - 25
Coal	6	8	6 - 9
Rail transportation rates	16	7	3 - 6

p = preliminary. f = forecast.

Labor

Labor costs represent wages and benefits paid to workers in the food industry and account for nearly half of all food marketing costs. They have risen about 7 percent this year, down from a 10 percent increase in 1981. Labor costs have risen more slowly at each major marketing stage--manufacturing, wholesaling, retailing--with the greatest moderation occurring at retail.

Several factors contributed to this slowdown in labor costs. The minimum wage did not increase this year. Also, the lower inflation rate has reduced cost-of-living increases in wages, especially important for food retailing costs. But even more importantly, smaller wage and benefit increases have been negotiated in many new labor contracts this year. Because of the recession and high unemployment, workers have made concessions to protect jobs, especially in industries with financial difficulties. For example, in the meatpacking industry, workers for five major pork processing companies agreed to contracts that essentially freeze wages and eliminate cost-of-living adjustments until the fall of 1984. In exchange, the meatpackers gave assurances that no plants would be closed through the middle of 1983.

In the California food canning industry, a recent 3-year agreement holds wages unchanged in the first year of the contract, followed by 10 to 55 cents per hour wage increases in each of the following 2 years. These deferred wage adjustments represent 3 to 9 percent increases over the length of the contract, significantly less than the 21 to 27 percent first-year plus deferred wage adjustments in the previous contract. A further easing in labor costs results from changes in the probationary period for new workers. Employees will now be paid 2 dollars per hour less for their initial 90 days of work. This compares to a 30 cents per hour lower wage paid for the first 30 days of employment under the previous agreement.

Employees of some food retailers have also agreed to smaller wage and benefit increases in new labor contracts negotiated this year. A new contract covering food chain employees in St. Louis granted journeyman clerks a first year wage increase of 50 cents per hour or about 5.1 percent. This will be followed by additional 50 cent wage increases each of the remaining 2 years of the contract. In another contract settlement, clerks in Denver agreed to a wage increase of about 6.9 percent. Importantly, these increases are less than the 8 to 11 percent wage increases common in recent years.

Food industry labor costs in 1983 will probably slow further, with a 5 to 7 percent rise likely. Again the minimum wage will be unchanged in the coming year and cost-of-living adjustments will be limited by a moderate general inflation rate. Most scheduled wage and benefit increases next year from existing contracts will be smaller than this year. Continued weakness also is expected in many labor contract negotiations next year.

Packaging

Packaging costs in the food sector have gone down about 2 percent this year. Prices for polyethylene resin, the major material used in plastic containers and film wrapping, have dropped about a fourth, reflecting weak demand for plastics in nonfood markets due to the recession, and lower costs for petroleum inputs used in making plastics. Prices for paperboard and

paper products have been stable this year, due in part to weak market demand and large supplies of pulpwood, the major input in paperboard manufacturing. Prices of tin cans and glass containers have gone up less than a year ago, reflecting strong competition in the container industry. Glass container prices rose the most this year, due primarily to rising industry labor costs and cost increases for natural gas, the primary energy input in glass manufacturing.

Packaging costs may increase 2 to 5 percent in 1983. Polyethylene resin prices may be up some next year because petroleum prices will likely be higher. Prices for paperboard and paper products are expected to be somewhat higher than this year's level and container industry competition will continue to hold down tin can and glass bottle prices. For glass bottles, a new labor contract will be negotiated in 1983 which will likely lead to smaller cost rises, but costs for natural gas will continue upward and be partly offsetting.

Energy

Energy costs have risen about 5 percent this year, about a quarter the rate they did in 1981. Most of this slowdown reflects a 5 percent decline in diesel and fuel oil prices. Demand has been down reflecting slow economic growth and continued price-induced conservation efforts. Additionally, petroleum product inventories have been reduced, in part due to continued high interest costs. In contrast, coal prices have risen at a faster rate than a year ago. This reflects larger export demand for coal as an alternative to petroleum products and higher labor costs in mining resulting from last year's contract settlement in the industry. Higher coal prices and high costs of financing have further boosted electricity rates. Natural gas prices also have continued to increase at a substantial rate, largely as a result of decontrol.

Energy costs will likely rise more rapidly in 1983. Demand for diesel and fuel oil will still be weak through at least the middle of the year, but prices will likely rise slightly as petroleum product inventories begin to rebuild. Prices for other energy inputs will continue to be affected by the same factors as this year. Prices for coal and electricity will rise slightly faster than inflation. Phased decontrol will again push natural gas prices up sharply, with a 15 to 25 percent rise likely.

Transportation

Rail rates for food products this year have increased less than half as fast as in 1981. Rail rate increases are approved by the Interstate Commerce Commission (ICC) to reflect increased operating costs. Operating costs, however, have risen more slowly this year largely due to lower diesel fuel costs. In 1983, energy cost will likely be up more than this year, but labor costs probably will not be up as much. This will likely result in a lower rate of increase for rail costs and, consequently, ICC approved rail rate increases in 1983.

Trucking costs have been up somewhat less than rail rates this year. Increases for most transported goods generally parallel rail increases. However, increased competition resulting from decontrol of the industry in 1980 has led to lower trucking transportation rates for some foods. In 1983, trucking rate increases will likely be up near the 3 to 6 percent increase expected for rail rates.

Food Product Highlights

Prices for most foods rose moderately or declined this year. However, reduced production led to double digit price increases for pork and fresh fruit. Next year, small price rises are expected for most foods with declines likely for some categories.

Meats

Retail prices of red meat rose about 5 percent this year as production fell 5 percent. Most of this is a consequence of significant adjustments in the hog industry. Following two years of financial losses, hog producers cut production back 11 percent this year, with fourth quarter production down about 18 percent from year-earlier levels. Consequently, pork prices rose sharply through most of 1982 and have averaged about 12 percent higher than in 1981. Beef production this year will be up slightly from last year's level, with retail prices rising 2 percent. Production was down in the first half of the year, but has risen in the second half due to increased fed beef and cow slaughter. Importantly, higher cow slaughter implies that cattle

Table 4--Changes in Consumer Price Indexes 1980 through 1983

Food category	1980	1981	1982 P	1983 f
			<u>Percent</u>	
All food	8.6	7.9	4-1/2	3 - 6
Food away from home	9.9	9.0	5-1/2	4 - 6
Food at home	8.0	7.3	4	3 - 6
Meats	2.9	3.6	5	3 - 6
Beef and veal	5.7	0.9	2	2 - 5
Pork	-3.4	2.3	12	4 - 7
Poultry	5.1	4.1	-2	2 - 5
Eggs	-1.8	8.3	-3	-3 - 0
Dairy products	9.8	7.1	2	2 - 5
Fish and seafood	9.2	8.3	4	2 - 5
Fruits and vegetables	7.3	12.0	6	1 - 4
Sugar and sweets	22.9	7.9	0	3 - 6
Cereals and bakery products	11.9	10.0	5	2 - 5
Fats and oils	6.6	10.7	-2	2 - 5
Nonalcoholic beverages	10.6	4.2	3	3 - 6
Other prepared foods	10.8	10.3	6	3 - 6

p = preliminary. f = forecast.

Source: Historical data from Department of Labor; forecasts by Economic Research Service, U.S. Department of Agriculture.

producers may be delaying the expansion phase of the cattle cycle. With consumer incomes and food demand stagnant for a number of years, the derived demand for cattle has been weak, causing financial difficulties for many producers.

Further cutbacks in meat production of 1 to 2 percent are expected in 1983, pushing retail meat prices up 3 to 6 percent. Developments in the general economy and its implications for consumer incomes and food demand will be important for determining meat price increases next year. Also, developments in the hog industry will again have a strong influence on prices. With the hog to corn price ratio exceeding 25 in recent months, some expansion in hog herds would usually be occurring now, resulting in pork production increases by the middle of 1983. However, many hog producers have cash flow difficulties and, consequently, are reluctant to expand herds. Therefore, pork production may be off 3 percent in 1983, with retail pork prices likely to rise more than the general inflation rate. Beef production in 1983 may be down 1 percent, with retail beef and veal prices expected to be up somewhat more than in 1982.

Poultry and Eggs

Poultry prices have fallen about 2 percent this year, mainly due to continued increases in broiler supplies. Broiler production has been up about 2 percent and export demand has been weak. In addition, large frozen stocks of turkey at the beginning of the year augmented reduced production, holding retail turkey prices lower than a year ago for most of 1982. Egg prices have fallen about 3 percent this year. Lagging export demand has kept supplies near last year's levels even though production has been down about 1 percent.

In 1983, poultry production will likely be up again with low grain prices holding down feeding costs. With lower red meat supplies, however, poultry demand may rise some, pushing retail poultry prices up 2 to 5 percent. Egg production next year is expected to be near 1982's level, but weak foreign demand may hold prices lower than this year.

Dairy Products

Retail prices for dairy products will be up about 2 percent this year, the smallest annual increase since 1972. Changes in dairy legislation have kept the price support at \$13.10 per hundredweight this year. Also, marketing cost increases have been significantly smaller than in recent years. Additionally, milk production has continued to expand. Lower grain prices have reduced feeding costs and the resulting increase in feed use has raised output per cow. Further, low farm-level prices for cull cows have discouraged net dairy herd liquidation.

In 1983, the price support will be unchanged and marketing cost increases are likely to remain moderate. Milk production may rise further in 1983, even though deductions will be made from producer prices to help offset public costs of the price support program. Consequently, retail prices for dairy products in 1983 will likely be up less than the inflation rate and may rise as little as they have this year.

Fish and Seafood

Retail prices for fish and seafood this year have averaged about 4 percent higher than in 1981. Fresh and frozen fish prices were up sharply early in the year as cold weather reduced the catch. As weather improved, fish supplies recovered, resulting in a significant decline in fish prices in May. With marketing costs up moderately and competition from beef and poultry, fish prices recently have been about 2 percent higher than year-earlier levels. Moderate increases are expected for fish prices next year, although poor winter weather could again limit supplies and push prices up sharply early in 1983.

Fruits and Vegetables

Fruit and vegetable prices this year have averaged about 6 percent above last year. For the second consecutive year, a freeze in Florida reduced supplies and pushed fruit and vegetable prices up early in the year.

In addition to smaller planted acreage nationwide last winter, tomato, green bean, green pepper, and cucumber crops were reduced by the Florida freeze. At the same time, insect damage and smaller planted acreage reduced the California lettuce crop. Imports from Mexico augmented reduced domestic production, but retail fresh vegetable prices rose 24 percent between the last quarter of 1981 and the first quarter of 1982. By the second quarter, Florida fresh vegetable crops that had been planted following the freeze were being harvested. California lettuce production also rebounded in the second quarter. Seasonal production increases then pushed retail vegetable prices down in the third quarter. Potato prices, in particular, fell sharply at retail and have recently been 16 percent lower than a year ago. This reflects a 4 percent rise in the fall potato harvest, bringing production to the highest level since 1978. Also, fall harvest acreage is up 6 percent for 7 other major fresh vegetables, which has pushed retail prices lower than a year ago.

Retail prices for processed vegetables this year will average about 6 percent higher than in 1981. In the first half of 1982, processed vegetable supplies were below year-earlier levels, primarily reflecting lower contracted acreage last fall. Additionally, last year's yields for tomatoes used for canning were reduced by hot weather in California. Demand, however, has been weak and with processed supplies rising this fall due to an increase in contracted acreage, processed vegetable prices have recently been only 3 percent higher than a year ago.

Fresh fruit prices will average about 12 percent above 1981 levels as production difficulties affected citrus and noncitrus supplies this year. Last fall's apple harvest was down, especially in the Northeast and Great Lakes regions where cold weather in the spring of 1981 affected the crops. Consequently, apple stocks in cold storage at the start of this year were down 18 percent, and retail apple prices have been well above last year's levels. Orange production was down sharply this year and retail prices have also been considerably higher than in 1981. The California orange crop was

down a third and much of the fresh-use Florida crop was diverted to processing following the freeze. Peach production this summer was down 20 percent mainly due to cold weather last April in the Southeast. Also, bad weather in California last spring damaged the summer noncitrus crops.

The Florida freeze cut production of frozen concentrated orange juice (FCOJ) by reducing both the number of boxes of oranges harvested and the juice content of the fruit. Large FCOJ carryover stocks and imports from Brazil were partly offsetting although retail prices for FCOJ were up 10 percent from December of last year to March of this year. Demand for most other processed fruits has been sluggish this year and supplies have been adequate. Therefore, with marketing cost increases small, little change in retail prices for processed fruits has occurred since the first quarter. However, because of the freeze-related price jump early in the year, processed fruit prices will average 6 percent above 1981's level.

Fruit and vegetable prices next year are expected to be up slightly, 1 to 4 percent. A 4 percent rise in potato production this fall and a substantial increase in contracted vegetable acreage for processing will limit movements in retail vegetable prices. Processed tomato production is expected to be up 32 percent and processed corn production is expected to rise 12 percent. A 9 percent rise in apple production this fall, 27 percent greater grape production, and a projected 21 percent increase in orange production will likely push fresh fruit prices down. Pear prices will be up, however, reflecting a 12 percent smaller crop this year. Larger Florida orange production for processing will hold down FCOJ prices. Most of the orange trees in Florida have recovered from last winter's freeze damage as moisture conditions in the spring and summer were ample. Also, although production of fruit for canning is down, carryover supplies are large. This will keep canned fruit supplies adequate to meet lagging demand and will likely hold retail price increases for processed fruits lower than the general inflation rate.

Sugar and Sweets

Retail prices for sugar and sweets have averaged near 1981 levels. Global production of sugar last year exceeded consumption by about 10 million tons, bringing world sugar stocks to nearly 40 percent of annual consumption needs. Consequently, 1982 world raw sugar prices fell sharply. Domestically, however, a sugar price support program was enacted and duties, fees, and quotas have been placed on sugar imports. This has insulated retail sugar prices from much of the impact of the lower world sugar prices, holding retail prices for sugar stable through most of the year when they likely would have otherwise fallen. Consequently, although 1982 prices for sugar and sweets at retail are near 1981 levels, they are higher than they would have been without a sugar price support program and sugar import restrictions.

Global production of sugar this year is again likely to exceed consumption, so world raw sugar prices in 1983 will continue to be low. Domestically, an increase in the sugar price support and continued sugar import restrictions will contribute to a rise in retail prices for sugar and sweets of about 3 to 6 percent.

Cereals and Bakery Products

Price rises for cereals and bakery products this year have been held down primarily by moderation of food marketing costs. Cereals and bakery products are highly processed foods and, therefore, marketing costs play the dominant role (over 85 percent) in determining their prices. Additionally, both wheat and rice production in 1981 were record high and a larger wheat crop has been harvested this year. Consequently, the value of farm commodities used in cereals and bakery products has fallen this year, further limiting retail price rises.

The marketing cost moderation is expected to again hold down price increases for cereals and bakery products in 1983. Also, little change is expected in the farm value of these foods. Wheat supplies are high reflecting the second consecutive year of record-large production this year. Although rice production is down from 1981's record level, it is the second highest ever. Combined with large carryover stocks of rice from last year, this will push total rice supplies for 1983 to record high levels.

Fats and Oils

Retail prices for fats and oils have fallen 2 percent this year. Large supplies of oilseeds have limited price movements for vegetable oils. Record high 1981 peanut production has led to a recovery in supplies from the depressed levels caused by the 1980 drought. Marketing costs, which account for about three-fourths of retail prices for fats and oils, have also slowed.

Retail prices for fats and oils may increase 2 to 5 percent in 1983. Record large soybean production this year will again hold down prices for vegetable oils, but a decline in peanut production this fall will likely exert upward pressure on peanut and peanut butter prices next year. Marketing costs will again rise slowly.

Nonalcoholic Beverages

Nonalcoholic beverage prices have been about 3 percent higher this year. Soft drink price rises have slowed due to lower sugar prices, increased use of corn sweeteners, and smaller increases in marketing costs. Coffee prices rose sharply in January and February but have been stable since. Global coffee production last year was record large but a freeze in Brazil diminished expectations for 1982 production, leading to the early-year price run-up.

Next year, nonalcoholic beverage prices will again be up moderately, primarily due to small increases in marketing costs. Higher domestic sugar prices will also contribute to soft drink price rises. Coffee prices are likely to remain relatively stable in 1983. Global coffee production this year was down 16 percent, reflecting a 46 percent drop in the Brazilian crop that resulted from freeze damage to the coffee trees in 1981. However, carryover stocks from the record 1981 crop will hold world supplies for 1983 near this year's level. Further, no freeze occurred this year in coffee producing areas, so 1983 production will likely improve.

Food Consumption Situation and Outlook

Per capita food consumption this year on a retail weight basis will be down slightly from 1981's level even though real food prices will fall for the fourth consecutive year. This indicates the weakness in consumer food demand that has resulted from 3 to 4 years of little or no growth in real incomes. Per capita food use in 1983 is expected to rise some. Large crops this year and expected increases in fruit and vegetable supplies next year will offset a further drop in animal products use.

Consumption of animal product foods will be down about 1 percent this year, with an additional 1 to 2 percent decline likely in 1983. This year's decrease has been led by a 5 percent drop in red meat use. At 149 pounds per person, red meat consumption is the lowest since 1965, well below the record of 170 pounds per person in 1971. Most of this year's decline is due to the sharp fall in pork use. Beef and veal consumption is unchanged as population growth has offset a small rise in beef production. Next year, red meat use will be down again, with beef and pork consumption each expected to fall.

Table 5--Food Consumption, Retail Weight, 1980-1983

Food category	1980	1981	1982 p	1983 f
<u>Pounds per person</u>				
Total food	1407	1400	1393	1405
Animal products	587	582	577	571
Red meats	160	157	149	144
Beef and veal	78	79	79	77
Pork	68	65	57	55
Other	13	13	13	13
Poultry	61	63	64	65
Eggs	35	34	34	33
Dairy products	308	304	306	305
Other	24	24	24	24
Crop products	820	818	816	834
Cereals and bakery products	150	151	151	153
Vegetable oils	47	48	49	49
Fruits and melons	162	165	159	163
Vegetables	294	284	287	296
Sugar and sweeteners	133	135	135	138
Other	33	34	35	35

p = preliminary. f = forecast. Note: Totals may not add due to rounding.

Poultry consumption this year has continued its long term upward trend reflecting a 30 to 40 year expansion of the broiler industry. Importantly, with pork use down sharply, poultry consumption per person will exceed pork use this year for the first time ever. With further expansion likely in the broiler industry next year, the relationship of poultry use exceeding pork use is expected to continue in 1983. This shift is a consequence of the low price of poultry relative to pork, mainly reflecting the higher feed conversion ratio of poultry. Also, the biological production process for poultry is relatively short compared to pork and beef. This allows poultry producers to react faster to changing market conditions, thereby giving them a competitive cost advantage in the short run.

Regarding other animal product foods, egg use, although leveling off this year, will continue its long term downward trend in 1983, the result of dietary concerns and competition from other breakfast foods. Dairy products use is up this year, temporarily reversing a long term decline. Fluid milk use is down again but the distribution of cheese and butter from Government stocks has pushed processed dairy products consumption up. In 1983, per capita consumption of dairy products will decline, with use of fluid milk and processed dairy products each down slightly.

Per capita consumption of crop product foods this year will be near last year's level. Lower consumption of most fruits is being offset by larger consumption of potatoes and corn sweeteners. Next year consumption of crop product foods will be up 2 to 3 percent. Fruits and vegetable use will be up significantly as production recovers from many weather-related difficulties encountered for 1982 supplies. Further increases in corn sweeteners use will offset some decline in sugar consumption. Cereals and bakery products use will be up due to large wheat and rice supplies.

Summary

Moderation in food price rises this year continues a pattern of slowing annual increases that began following the double digit rises at the end of the 1970s. A lower general inflation rate has been reflected in a slowing of food marketing costs. Per capita consumption of food has fallen off some this year, largely due to lower pork and fruit supplies. However, weak demand for food has limited increases in the farm value of food.

The outlook for food in 1983 indicates a 3 to 6 percent rise in retail food prices. The general inflation rate may slow some next year and again hold down marketing costs. Total per capita food consumption is expected to be up about 1 percent in 1983. Increased consumption of crop product foods, led by a recovery of fruit supplies, will offset slightly lower consumption of animal product foods. Demand for food may improve some, but with larger food supplies the farm value of foods will be up only slightly.

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